EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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FRANCE

Télécom apron strings are being untied

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World News

Aquino calls national state of emergency

President Corazon Aquino declared a national state of emergency to combat "the serious social and economic damage" caused to the Philippines by the continuing military rebellion. Page 18; Debt accord in doubt, Page 4; Share fears, Page 23

Czech negotiations
Formation of a new government in Czechoslovakia dominated negotiations between Ladislav Adamec, the Communist Prime Minister, and the Civic Forum opposition. Page 18, Socialist role, Page 2

Singh job surprises
New Indian Prime Minister Vishwanath Pratap Singh sprang a series of surprises in his allocation of jobs to his 15-man cabinet. Page 4

Quayle on Soviets
Two days after the Malta summit, US Vice President Dan Quayle said he saw "little change" in Soviet foreign policy. Page 6

Gorbachev talks
President Mikhail Gorbachev is locked in top-level talks on East-West relations at a time when his own party is at a critical juncture. Page 2

Israel bans Husseini
Israel banned Faisal Husseini, the prominent Jerusalem Palestinian, from entering the West Bank and Gaza Strip, virtually identifying him as the most senior leader of the Palestinian uprising. Page 4

China criticises HK
China has continued criticism of Hong Kong at a meeting of the Sino-British Joint Liaison Group which is preparing for China's resumption of sovereignty over the British colony in 1997. Page 4

Kohl election delay
Helmut Kohl, West German Chancellor, suggested to the French Government that planned talks to prepare for European monetary union (EMU) should be delayed until after Bonn's general elections in 11 months' time. Page 3.

Oslo freeze goes
Norway's new tripartite centre-right Government is to abandon the tough incomes policy of its Labour predecessor which froze wage growth to 4 per cent for two years running. Page 3

Politician bombed
A bomb explosion in Guatemala City, the latest in a series of attacks that have rocked the capital, damaged the home of Foreign Minister Ariel Rivera Irias and injured two passersby. Bogota car bomb, Page 6

Hrawi issues threat
Lebanese president Elias Hrawi threatened to resign unless he won control of the presidential palace in Christian East Beirut from General Michel Aoun. Analysis, Page 4

French immigration
The French Government introduced a high-profile policy towards immigrants designed to tighten existing restrictions on new immigration. Page 2

Sudan talks collapse
Sudan headed for a new round of bloodshed after peace talks collapsed and the Sudan People's Liberation Army rebels accused the government of declaring war by bombing Waat, a rebel-held town.

Bestseller fined
Regine Deforges, the author of the French bestseller Blue Bicycle, and her publishers were ordered to pay Margaret Mitchell's heirs FFr2m ($330,000) for plagiarising her novel Gone With the Wind.

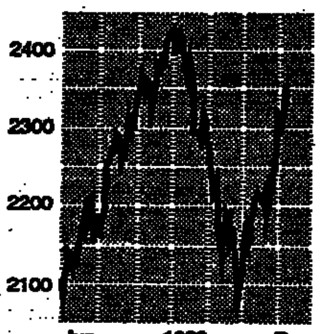
Business Summary

Chrysler may sell air and defence operations

Chrysler, third largest US motor manufacturer, said it might sell its aerospace and defence electronics operations, estimated by some Wall Street analysts to be worth up to $700m. Page 19

FT-SE Index made a slow start but climbed to close with a net gain of 26.2 points at 2,353.7, the peak of the session after heavy over-subscription for the water privatisation issues and unexpected developments in the property and retail sectors. Page 33

FT-SE 100 Index



NMB Postbank, newly merged Dutch bank which is being partially privatised through a Fl 1.3bn ($665m) international offering, announced share price of $23.25 for about 30 per cent of the shares. Page 19

KINGFISHER, UK retail group, turned the tables on Dixons by launching a takeover bid worth £614m for the electrical goods retailer. Page 19

SAATCHI & Saatchi, UK communications and consulting group, has cut its final dividend from 8.6p to 1.6p thereby reducing the total dividend from 16p to 9p. Page 19, Analysis, Page 22

JAPAN'S economy grew 2.9 per cent in the third quarter, suggesting growth for the year will outstrip predictions. Page 18

US President George Bush will sign legislation authorising a 2½ year renewal of a US "voluntary" quota programme, which will reshuffle shares in the US imported steel market. Page 18

WEST Germany is likely to grant a licence to operate the country's second mobile phone network to an international consortium led by Mannesmann, German engineering group. Page 6

US economic slowdown, particularly in manufacturing, manufacturing, is predicted in the new Federal Reserve's Beige Book regional survey, Page 18

MITSUI Construction of Japan is to partner Taylor Woodrow, UK property and construction group, in London residential developments. Page 9

MERRILL LYNCH, fourth largest dealer in the Eurocommercial paper market, has informed clients it intends to pull out of the business. Page 24

HUNGARY is to receive a five year Ecu1bn ($1.13bn) loan from the European Community to ease its balance of payments position. Page 3

BLOOMINGDALE'S, prestigious US department store chain, will be open to buy-out bids due tomorrow but reports suggest offered prices will fall short of Campeau's, the owners, expectations. Page 20

ITALY has been told by IMF team of inspectors to cut public spending and raise taxes if it intends to achieve its 1990 public sector deficit target of $101.4bn. Page 2

CONTROL Data of the US has appointed Lawrence Perlman chief executive, to revive the struggling computer hardware and services group. Page 20

Angry citizens raid military establishments in search for evidence of official corruption

E German leaders plead for calm

By David Goodhart in East Berlin

EAST GERMANY'S beleaguered Government appealed for calm last night after warning that angry citizens were attempting to break into military establishments apparently in search of incriminating documents related to corruption.

The warning came only hours after Mr Egon Krenz, the man who has tried to shore up the Communist Party's crumbling authority, resigned as State President and was replaced by the country's first non-Communist head of state.

A government communiqué carried by the official news agency ADN said: "In the past few hours the signs of attacks on the premises and facilities of the National People's Army have been multiplying."

While details remained sketchy, ADN appeared to be referring to incidents in which crowds of people entered army bunkers and other premises as part of a desperate attempt, underway for the past three days, to stop the destruction or concealment of documents incriminating corrupt officials.

Earlier, the appointment by the Council of State of Mr Manfred Gerlach, the Liberal Democratic party leader, to succeed Mr Egon Krenz as President marked a fresh move towards oblivion for the old Communist order.

Mr Krenz, in power for 49 days, had already been stripped of most of his authority at the weekend, when he lost the post of Communist party chief and the entire Communist leadership collapsed.

An emergency party congress intended to elect a new leadership was yesterday brought forward to Friday, amid calls for a new generation of younger East Germans to be elected to party office and a possible change of name for the party.

Mr Gerlach's Liberal Democrats form one of the four long-established "block parties" which until recently backed the Communists but have now distanced themselves from the discredited ruling party, and were instrumental in securing the removal of Mr Krenz.

Until next year's elections, effective power in East Germany seems likely to be shared between the coalition government of Communist and block parties headed by Mr Hans Mondrow, Prime Minister, and the "round table" of official and unofficial parties that meets today for the first time.

Yesterday the official Communist newspaper Neues Deutschland reported several plans to radicalise and democratise the Party at tomorrow's congress, while the Berliner

New President: Liberal Democrat Manfred Gerlach

Zeitung proposed a chanmge of name.

It is now estimated that nearly 300,000 out of an original 2m members have left the party in the past three months. Most are not immediately joining new parties but some have joined the Social Democratic party which is accordingly picking up momentum.

Reformers were stressing yesterday that even after free elections next year the country will remain dependent on vast numbers of middle-ranking officials of the Communist party because there are simply not enough qualified people outside the ruling party.

One of the most radical economic reform documents published to date, by the economic reform group of the State Planning Commission, yesterday proposed a "socialist market" model. Although social ownership would remain at the core of economic management, the success of the economy was also dependent on various forms of private ownership, said the paper.

The paper also said that most subsidies must start to be phased out and that wages and pensions must correspondingly rise. The subsequent creation of a real price system should allow currency convertibility in the near future.

East Germany's economic reformers are increasingly quoting the example of Austria – a country also cited by Mr Modrow in a recent interview – noting that it combines a high degree of public ownership with a dominant role for the market system.

Although the need for joint ventures with foreign companies is no longer controversial, one economic adviser yesterday said there was still an insistence on sticking to 51 per cent domestic ownership to prevent a "Hungarian sellout."

The same adviser said he was in favour of allowing private ownership in companies of up to 300 people, but that many people still thought this number too high.

● In Washington, a State Department spokeswoman said she hoped yesterday's change of guard in East Berlin would lead to a new regime that better reflected the wishes of ordinary East Germany citizens, Reuter reports from Washington.

"We would say that we hope that these actions will result in a new leadership that is responsive to the aspirations of the population," the spokeswoman, Mrs Margaret Tutwiler, told reporters.

"As President Bush has said many times, we want to see change brought about through self-determination achieved in peace and freedom," she said.

● The appeal for calm was the top item on East Germany's main television news programme which said that Lutheran Church leaders were joining in the call, AP reports from East Berlin.

"The church leadership insists that in this serious situation, people act properly, with restraint and without violence," said the television.

The National People's Army leadership issued its own statement, saying the military would repel illegal access to "weapons, munition and fuel."

Newspaper develops taste for digging, Page 2; Veto on new Czech Cabinet make-up, Page 18

Paris and Moscow agree on Germany

By Quentin Peel in Kiev

FRANCE and the Soviet Union yesterday spelt out an extraordinary measure of agreement on the need to maintain the status quo in Europe, and to go slow on plans for the reunification of Germany.

President François Mitterrand of France gave his strong support to the Soviet plan for a pan-European "Helsinki 2" summit in the next twelve months.

Soviet officials say such a summit could reconsider the whole relationship between East and West Europe, and include the acutely sensitive question of relations between the two German states.

The remarkable entente came after just two hours of talks between the heads of state in Kiev, the Ukranian capital, underlining the broad identity of views between the two European nations with most to fear, historically and geo-politically, from German reunification.

While neither side would call their common grounds an agreement, they separately spelt out far-reaching similarities in their positions: both stressed the reality of two legal German states, as recognised in the current Helsinki agreement; both say intra-German relations cannot be divorced from East-West relations in Europe; both say that all European nations must have a say in the process; both say that any change must come peacefully and democratically; both say there can be no change in the other borders and frontiers of Europe; both admit that the pressure for reunification is real, and cannot simply be ignored.

Mr Gorbachev said that the two sides had a "substantial discussion" of the whole German question, against the background of "the very turbulent period through which we are living."

The Soviet leader showed his continued backing for the reforms in Eastern Europe, stressing that the common theme in them all was "a high level of democratisation, opening of society and creating structures which will reflect the interests of the people."

Both leaders underlined the need to start from a recognition of two separate German states as accepted in the original 1975 Helsinki agreement and represented at the UN.

Referring to the growing demands within the two Ger-

Continued on Page 18

Investors rush for shares in UK water companies

By Clare Pearson and Andrew Hill in London

BRITAIN'S £5.24bn ($8.2bn) water companies' flotation has been oversubscribed after a last minute rush by the public to apply for shares ahead of the closure of the offer-for-sale yesterday morning.

Expectations were that the offer to the public had been at least two times subscribed, as would-be shareholders formed huge crowds outside receiving centres around the country to beat the 10am deadline for hand deliveries of forms.

An announcement from J. Henry Schroder Wagg, the merchant bank advising on the flotation, on whether the £1.2bn worth of shares initially allocated to the public has been more than 1.75 times subscribed – enough to trigger clawbacks from overseas holders – is expected today.

I.G. Index, the financial bookmakers making a form of advanced market in the shares, has consistently quoted the shares at a premium to their 100p partly paid price. Yesterday the bets were that the shares would close at premium of 25 per cent on the first day of stock market dealings.

However, Mr Michael Howard, Environment Minister in charge of water privatisation, denied suggestions that the Government was selling the shares too cheaply at the 240p fully paid price, announced on November 22. "The stock market has gone up by nearly 150 points since we did the pricing. I suppose people will say we knew it was

Continued on Page 18

Picture: Alan Harper

Police turn away prospective investors in the privatisation of Britain's water companies at the closing of applications in London yesterday

West German leaders mourn murdered Deutsche Bank chief

By David Marsh in Frankfurt

MR Alfred Herrhausen, the murdered chief executive of the Deutsche Bank, his oak coffin decked with yellow narcissi, was mourned yesterday by the leaders of West Germany's business and public life in a solemn outpouring of state sorrow in Frankfurt's rebuilt Gothic cathedral.

Speaking at the end of a 2¼-hour requiem mass, Mr Helmut Kohl, the Chancellor, issued a tribute of defiant patriotism for a man he valued as a friend and adviser: "Alfred Herrhausen earned the merit of the Fatherland."

Mr Kohl's closing words in a 15-minute funeral oration were delivered in a voice husky with emotion. They were both a message of grief and a firm reminder that – at this time of momentous change in East Germany – the Chancellor intends to keep the theme of German national unity at the top of the political agenda.

The Chancellor also warned against "character assassination" of top businessmen in a statement indirectly aimed at parts of the West German media, which have been focusing on the concentration of power of the Deutsche Bank.

Mr Herrhausen, the most potent symbol of West Germany's economic might, was killed by a bomb from the Red Army Faction terrorist group which blew up his armour-plated Mercedes in Bad Homburg, outside Frankfurt.

Underlining his pivotal role in the Federal Republic, the 1,000-strong funeral congregation yesterday included President Richard von Weizsäcker, most of the Bonn cabinet, Mrs Rita Sussmüth, the president of the Bundestag, and Mr Karl Otto Pöhl, the head of the Bundesbank.

Among the captains of industry were Mr Edzard Reuter, the chairman of Daimler-Benz – of which Mr Herrhausen was the supervisory board chairman – and Mr Bertholt Beitz, the veteran Krupp chief. Mr Giovanni Gianni Agnelli, the head of Fiat, and the US, British and French ambassadors to Bonn were in the front pew.

Father Augustinius Henckel-Donnersmarck, a friend of the Herrhausen family, lauded the assassinated chairman as not simply a cool-thinking banker of intelligence and precision but also a man of warmth and humour. He also had failings, and could be "impatient and irritated."

Mr Kohl reflected that both he and Mr Herrhausen had helped consolidate "the most free and peaceful state that the Germans have ever had". The Chancellor dwelled on the stream of top businessmen liquidated by terrorist "enemies of the republic" since the 1970s. "Isn't something wrong when leading business representatives are made into targets?"

He said the Red Army Faction saw "magnanimity as a sign of weakness" and that "this democracy will not be suffocated".

But he asked bitterly: "What is wrong with the Germans in the Federal Republic?"

MARKETS

STERLING
New York close: $1.5765
London: $1.578 (1.5705); DM2.7825 (2.79); FFr9.5025 (9.5275); SFr2.5 (2.4975); Y226.5 (225.75); £ Index 88.3 (88.4)

GOLD
New York: Comex Feb $408.2
London: $404.0 (same)

N SEA OIL (Argus)
Brent 15-day Jan $19.175 (18.975)

Chief price changes yesterday: Page 19

DOLLAR
New York close: DM1.76695; FFr6.035; SFr1.589; Y144.045
London: DM1.765 (1.776); FFr6.03 (6.065); SFr1.587 (1.5985); Y143.8 (143.7); $ Index 68.6 (68.9)
Tokyo close: Y143.75

US LUNCHTIME RATES
Fed Funds 8 7/16%
3-mo Treasury Bills: yield: 7.835%
Long Bond: 102 3/32, yield: 7.88%

STOCK INDICES
FT-SE 100: 2,353.7 (+26.2)
FT Ordinary: 1,859.9 (+23.1)
FT-A All-Share: 1,172.69 (+1.0%)
New York close: DJ Ind. Av. 2,736.77 (-4.91); S&P Comp 348.59
Tokyo: Nikkei 37,654.29 (+160.12)

LONDON MONEY
3-month Interbank: closing 15 5/32% (same)
Liffe long gilt future: Mar 90 19/32 (90 31/32)

MARKET REPORTS: CURRENCIES, Page 40; BONDS, Pages 23, 24; COMMODITIES, Page 32; EQUITIES, Pages 33 (London), 41 (World)

CONTENTS

Saatchi's trend-bucking comes to an end

Maurice Saatchi (left), along with his brother Charles, founded the advertising agency 19 years ago. But recently its share price in the UK has waxed and waned and there is uncertainty over the future of the group.

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Soviet plenum set to debate pace of reform

By Quentin Peel and John Parker in Moscow

PRESIDENT Mikhail Gorbachev is locked in top-level international talks on East-West relations at a moment when his own party is at a critical juncture.

A plenum of the Soviet Communist Party central committee is to be held on Saturday to prepare for next week's Congress of People's Deputies and it seems certain to be the stage for furious debate on the progress of political and economic reform.

At the same time radical demands for reconsideration of the monopoly role of the Communist Party, enshrined in Article 6 of the constitution, are coming to a head in advance of the Congress, following decisions by East Germany and Czechoslovakia to abandon similar provisions.

Two senior government figures – Mr Anatoly Lukyanov and Mr Yevgeny Primakov – this week flatly ruled out the abolition of Article 6.

But the strength of support for this demand was reflected in a recent session of the 540-member Supreme Soviet when deputies voted 198-173 that the question should be debated, with the motion only failing to be carried because of the high number of abstentions.

The determination of Mr Gorbachev, Mr Nikolai Ryzhkov, Prime Minister, and Dr Leonid Abalkin, Deputy Premier, to press ahead with a strategy to denationalise state property and promote market relations has galvanised conservative resistance.

Moscow is again buzzing with rumours about the possibility of changes in the ruling politburo, given the conservative backlash.

The position of Mr Yegor Ligachev, the leading conservative, is the most contradictory: all his public pronouncements appear to conflict with Mr Gorbachev's statements on the need for more radical change in property relations and the centralised planning system.

Hitherto, however, his position within the leadership has obviously been more useful to Mr Gorbachev, as a counterweight to demands for more radical reform.

Virtually coinciding with the central committee plenum will be a meeting of the Inter-regional Group within the Congress of Deputies – the 400-plus group of deputies headed by Mr Boris Yeltsin, Dr Andrei Sakharov and others. They are being asked to support a move to have Article 6 formally debated at the Congress.

On Sunday, the dissident Democratic Union is planning a demonstration in Moscow, featuring a provocative burning of photographs of the politburo members.

The highest Soviet officials admit that the behaviour of the 2,250-member Congress is no longer possible to predict. Despite an inbuilt conservative majority, deputies have been radicalised by the need to report to their constituents.

The majority are also deeply frustrated at being kept on the sidelines while the Supreme Soviet, elected from their own number, has tried and often failed to begin creating a new legal basis for the Soviet state.

Mr Gorbachev intends the economic debate to be the main item on the Congress agenda, taking up at least four days.

But the hectic pace of reform in Eastern Europe, the worsening ethnic relations in Soviet republics and the status of the Communist party, are all certain to force their way into an explosive debate.

BERLINER ZEITUNG REPORTERS UNCOVER MORE CORRUPTION AS EVERY DAY PASSES

Newspaper develops a taste for investigations

By David Goodhart in Berlin

WHEN A YOUNG builder called on the offices of East Berlin's Berliner Zeitung at the end of October to provide details of the luxury home he was hoping to build for Mr Gerhard Nennstiel, a senior trade unionist, he unwittingly launched East Germany's first attempt at investigative journalism.

He chose the Berliner Zeitung, which had a circulation of 450,000, because it had a reputation for being slightly less official than the party organ Neues Deutschland and had, under the protection of East Berlin party leader Mr Günter Schabowski, printed a few calls for economic reform.

The paper has now become the key source for the daily corruption revelations and its journalists collaborate in exposing former officials with the public prosecutor's office and the new parliamentary committee on corruption.

According to the 46-year-old economics editor, Mr Dieter Resch, who has had direct responsibility for the revelations, the campaign to root out and expose corruption will last at least six months more.

Yesterday's edition alleged that a former leader of one of the Communist-allied parties held DM250,000 (£90,000) in foreign bank accounts. Today's edition promises news of trade union leaders' expensive holidays.

Mr Resch, like many of the country's new leaders, clearly finds his new role – as campaigning journalist – a little uncomfortable. Despite a reputation for reformist economic views he was not previously considered radical, and was recently attacked in a satirical magazine.

He says he does not enjoy revealing just how rotten the system has been and fears that his paper's reports could be contributing to a potentially destabilising atmosphere. But he admits candidly: "If we don't do it, somebody else will."

Mr Resch denies that collaboration with officials from the public prosecutor's office removes any requirement to respect socialist libel laws and claims that "we must be able to prove everything".

He does, however, regret his slowness in publishing full details of the activities of Mr Alexander Schalck-Golodkowski, the fugitive former currency trading chief.

The newspaper gave the authorities a dossier on Mr Schalck at the end of last month, and published a detailed story about him December 3.

Mr Resch will not reveal his sources for that story but says that the original source for most of the daily corruption stories comes from ordinary readers. "They used to tell us these things in the past too, but we didn't believe them," he admits.

The ordinary readers are particularly interested in tales of socialist hypocrisy – "Did you know, for example, that there are 11,000 millionaires in East Germany?" he asks.

After a lifetime of direct political direction "which disappeared virtually overnight", according to Mr Resch, the paper certainly has the capacity, if not always the will, to dig around. It currently employs 90 journalists to fill eight pages and also uses a lot of newsagency copy.

All journalists are well trained, with at least four years' study at the Karl Marx University in Leipzig, but Mr Resch says half of them could disappear without any difference in the paper's output.

"Too many journalists either do nothing or just ask every day, 'What shall I do?' They don't think," he says.

Norway to drop pay control policy

By Karen Fossli in Oslo

NORWAY'S new tripartite centre-right Government is to abandon next year the tough incomes policy of its Labour predecessor which froze wage growth to 4 per cent for two years running.

The new coalition headed by Mr Jan Syse, the Conservative party leader, is aiming to convince trade unions to accept wage increases of 3-4 per cent in 1990. A recent central bank report issued a warning about pay rises, saying that "if wage growth exceeds 3.5 per cent, it will have unfortunate consequences for employment far into the 1990s." The unemployment rate, at 4-4.5 per cent, is currently at its highest since the 1930s.

The former minority Labour Government of Mrs Gro Harlem Brundtland implemented the tough incomes policy as part of a package of austerity measures to help put Norway's oil-dependent economy back on track. The economy plunged precipitously in 1986 when world crude oil prices fell below $10 a barrel from highs of $40 earlier in the decade.

The new coalition Government believes it will succeed in keeping down wage growth during next spring's wage negotiations because of its recent income tax reforms. The top rate of income tax is to be lowered to 59.3 per cent next year from the present 62 per cent, and to 56 per cent in 1991.

A priority of the new Government is to improve the supply side of Norway's economy. To this end it has promised to increase the efficiency of central and local government activities. Adapting the economy to post-1992 and lowering trade barriers in conformity with the General Agreement on Tariffs and Trade are also expected to contribute.

IMF warns Italy on debt target

By John Wyles in Rome

THE Italian government has been told by a sharply critical team of inspectors from the International Monetary Fund to cut public spending and raise taxes if it really intends to achieve its 1990 public sector deficit target of L133,000bn (£65bn).

Achieving the target – equal to 11 per cent of gross national product – has to be a "minimum objective" if Italy is to have any hope of curbing by 1992 the growth of a public debt which is now broadly equal to gross domestic product, says the 7-page report presented this week.

Outlining the case for measures over and above the draft 1990 budget which parliament is now considering, the IMF team say they have "many reservations" about whether the deficit target will otherwise be met. Spending controls appear "fragile" in many respects, they say, while interest payments will be higher than forecast, as may be public salary costs after a new wage round.

Badly needed reforms of health service spending are "all in the future", while spending allocations already approved but not yet drawn down could easily cause overspending as next year's regional elections approach. The report says that all of these things could cause a deficit next year of L140,000-145,000bn unless the government considers cutting aid to the regions and public industries as well as reducing spending on pensions.

Warning of the tests lying ahead with the lifting next year of all capital controls and the acceptance of a narrower oscillation band for the lira in the Exchange Rate Mechanism, the IMF says only action on the budget deficit and a *strict incomes policy in both* the public and private sectors can "lead to a better evolution of prices and maintain the competitiveness of the Italian economy."

EC to lend Hungary Ecu1bn over 5 years

By David Buchan in Brussels

HUNGARY is to receive a five-year Ecu1bn (£730m) loan from the European Community to ease its balance of payments position. Mr Henning Christophersen, the Commissioner responsible for macro-economic affairs, said it was the first loan to be granted to a country outside the Community, and would be raised on the capital markets in the form of a syndicated credit or a bond issue with a guarantee written into the 1990 EC budget.

The loan, requested by Hungary in September and endorsed by EC leaders at their Paris summit, had three "preconditions" attached to it, said Mr Christophersen. These were that Hungary should agree on a credit adjustment plan with the International Monetary Fund and on the terms of supplementary economic restructuring with Brussels, and that the loan "should not be used to replace private credits."

While following the overall IMF lead in the politically sensitive job of supervising Hungary's restructuring, Mr Christophersen said the Community would set some "micro-economic" conditions to encourage private enterprise, in addition to the traditional IMF aggregate targets.

The EC loan would be paid out in three tranches and supervised by the Monetary Committee. Another reason for imposing separate EC conditions on Hungary was that the loan term might outlast that of a IMF standby credit, which is usually less than five years.

The Commission aims to pay Hungary the first tranche in the first quarter of next year. If Hungary received no money *before March-April*, Mr Christophersen did not rule out that Budapest might return to the idea of a shorter term bridging loan.

G7 to discuss IMF funds

By Peter Norman, Economics Correspondent

SENIOR finance ministry officials from the Group of Seven leading industrial countries plan to meet in Frankfurt next Monday for further discussion of the vexed issue of increasing the resources of the International Monetary Fund.

The officials – known as the G7 deputies – are also expected to discuss Western financial support for Eastern Europe at the start of a week in which several Western international bodies will be considering moves to help Poland.

According to international monetary officials, next Monday's G7 deputies meeting could be a prelude to a full-scale gathering of finance ministers from the US, Japan, West Germany, France, Britain, Italy and Canada early in the new year.

Such a meeting could precede a special session of the IMF's policy-making Interim Committee. Already, tenative preparations are being made for an Interim Committee meeting in the second half of January in the hope that it might settle the quota issue.

The question of quotas will be raised in Washington tomorrow at a meeting of the IMF's executive board. Although some progress has been made recently, the positions between the main IMF member countries are still far apart.

The US has said it will back a 35 per cent increase in quotas from the present $116bn special drawing right level and has indicated that it might support a bigger boost. Other countries such as France support a doubling of quotas.

The IMF member countries also have to settle the dispute over membership rankings, with Japan seeking to jump to number two position after the US.

Brussels says Japan must curb car exports

By Lucy Kellaway and William Dawkins

EUROPEAN commissioners yesterday agreed that a transitional period was needed to protect EC car-makers from Japanese imports after the lifting of national quotas in 1992. This would consist of a voluntary restraint arrangement to cover imports and possibly cars assembled in Europe.

The agreed position, deliberately devoid of detail, is a compromise between the views of Mr Martin Bangemann, Internal Market Commissioner, who favoured complete liberalisation of markets after 1992, and countries like France and Italy which wanted an array of restrictive measures, including local content rules, European quotas, and firmly established reciprocal access to markets.

Brussels has ducked putting a limit on the transitional period, or giving any idea how the monitoring arrangements would work. The aim, said Mr Frans Andriessen, External Affairs Commissioner, was "a smooth transition from restrictions to the final situation of an open market".

The proposal will be discussed by member states later this month, when some will push for a short period of 2-3 years, and others wanting well over five.

Mr Andriessen said Brussels had no intention of imposing local content rules, which in any case were prohibited under Gatt. However, Japanese production within the EC might be monitored during the transitional period.

The Commission would not seek to establish a formula for linking the opening of the European car market to that of the Japanese market, but would simply attempt to obtain an improvement in the broad balance of trade flows.

Most commissioners argeed yesterday that national quotas should be phased out as soon as possible.

A fresh call for strict reciprocity between the car industries of the EC and Japan yesterday came from Mr Jacques Calvet, president of PSA, the producer of Peugeot and Citroen cars.

Mr Calvet urged that the European market should only be opened when Japan and the EC had a more equal penetration of each others' markets, with local production subject to strict local content criteria, fixed on a "pragmatic" case-by-case basis.

That meant Tokyo should allow the EC to sell half the number of cars in Japan (half the size of the Community market) as Japanese producers export to the EC.

Only then would EC and Japanese car producers be competing on equal terms, he argued. Last year, Japan exported 1.2m cars to the EC, roughly 11 times more than the Community's car sales in Japan.

France tightens immigration controls

By Ian Davidson in Paris

THE French Government yesterday introduced a high-profile policy towards immigrants designed to tighten existing restrictions on new immigration.

The move follows Sunday's breakthrough by the right-wing National Front party in by-elections at Dreux and Marseilles. In both seats, the party campaigned on an overtly anti-immigrant platform.

The Government yesterday responded by underlining long-standing curbs on immigration. "The economic situation of France no longer allows it to be a land of immigration," said a government spokesman. In principle, new legal immigration has been at a stop since 1974, apart from family reunions.

New restrictions announced yesterday are aimed at tightening up on illegal immigrants, who may amount by some guesses to as many as 1m, on top of approximately 4m legal immigrants. In addition, the Government aims to speed up the processing of applications for political asylum, which are likely to have doubled this year to 60,000.

In the past, delays were so long that many applicants were effectively able to settle as illegal immigrants.

The Government will also seek to promote the integration of immigrants into French society through a permanent Ministerial Committee, which has been formed to give extra help with housing, jobs and education.

FINANCIAL TIMES

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EUROPEAN NEWS

Kohl wants to put off EMU talks

By David Marsh in Bonn

MR HELMUT KOHL, the West German Chancellor, has suggested to the French government that a planned inter-governmental conference to prepare the way for European monetary union (EMU) should be delayed until after Bonn's general elections in 11 months' time.

The letter, which is likely to disappoint but not fundamentally surprise President François Mitterrand, has been sent in advance of this weekend's Community summit at Strasbourg, officials said here yesterday.

While giving basic support to the goal of EMU, the letter proposes that changes in the Treaty of Rome to make monetary union possible should come into effect by 1994 – the date of the next elections to the European Parliament.

This is seen in Bonn as a way of side-stepping Mr Mitterrand's proposal that an inter-governmental conference on EMU should be held in the second half of next year.

Mr Kohl, backed by Mr Theo Waigel, the Finance Minister, regards the French-backed date as too early because of the electoral sensitivity of proposals to weaken the Bundesbank's control over the D-Mark.

Differences between Mr Kohl and Mr Mitterrand over the question of EMU already came to the surface when the French president visited Bonn last month for the last bi-annual Franco-German summit. Mr Hans-Dietrich Genscher, the Bonn Foreign Minister, has been holding out for an inter governemntal conference on EMU to be convened in the second half of next year, in accordance with French wishes.

Mr Genscher is concerned that Bonn's failure to back this date may be seen in Paris as a slipping of the Federal Republic's commitment to western integration at a time of rapid changes in relations with the East.

However, the British government, highly sceptical about the prospects for further-going monetary cooperation, is likely to be delighted that Bonn and Paris are not forming a common front over the issue.

UK prepares to polish its tarnished European reputation

Robert Mauthner talks to British Foreign Secretary Douglas Hurd about the issues likely to be raised at the EC summit in Strasbourg

MR Douglas Hurd, the British Foreign Secretary, has rejected criticisms that the UK Government does not have a strategic view of Europe and has indicated that he will make a determined effort to refurbish Britain's tarnished European reputation.

Mr Hurd, though careful not to stray from the well-known European policy principles laid down by Prime Minister Margaret Thatcher, clearly indicated in an interview with the Financial Times that Britain had to project a more enthusiastic pro-European image.

Mr Hurd rejected criticisms that the Government did not have a grand design for Europe, arguing that the 1992 single market project was largely a British creation. But there was no point in setting unrealistic targets for new developments before the task in hand was completed.

"We do have a longer-term idea. I think part of my job, while I'm here, is to identify, *explain* and *build* on a very wide measure of agreement, not just in the Conservative Party, but in the country as a whole, on what kind of Community we want in the longer term. I think there's a very large body of opinion, certainly the majority of Conservative Members of Parliament, who have long ago shed a sort of basic anti-Europeanism, who think membership of the Community is a good thing and who accept it is not static and is bound to develop."

The Foreign Secretary said that Britain would not be putting forward any great new scheme for the future development of the Community in Strasbourg. But that did not mean that it was devoid of thoughts on the subject. "We have very clear ideas about the opening to the East. We do not agree with some people in this country that one should take the opportunity of events in Eastern Europe to expand the Community's membership so quickly that it would lead to its dilution. We believe that full membership of the Community should stay as it is."

On the other hand, it was very important that the negotiations about to begin with the European Free Trade Association countries should result in a different relationship with the Community and that new types of association agreements should also be worked out with newly democratic Eastern European countries.

Mr Hurd confirmed that, if Britain's partners decided to hold an inter-governmental conference to discuss treaty changes required by the setting up of a European Central Bank and other aspects of economic and monetary union, Britain would attend it. "The empty chair is not a British concept," Mr Hurd said. But he made it plain that Mrs Thatcher would vote against holding the conference.

That did not mean that Britain was in favour of stagnation and immobility.

The Government merely felt that moves towards economic and monetary integration should follow a logical sequence.

First of all, the single European market had to be completed. Then, the Community should move on to stage one of the Delors Plan for European Monetary Union (EMU), which foresees all member countries joining the European Exchange Rate Mechanism (ERM) and the abolition of all exchange controls. The 12 could then "organise their thoughts" about the future shape of EMU and other aspects of the Community's development.

"It seems to me that when you say stages two and three (of the Delors Plan for economic and monetary union) have to be worked out in the light of your experience of stage one, you cannot then say we are going to draft treaty amendments a month or two after stage one has started. It isn't logical. Such treaty amendments should come at the end of the whole process, not at the beginning."

Though admitting that the differences between Britain and its EC partners on economic and monetary union had not been bridged, Mr Hurd did not foresee a great row in Strasbourg over Britain's continued opposition to the proposed Social Charter, which is backed by most of the other members. "I think there will be an agreement to differ without great resonance on either side."

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Hurd: "We do not agree with some people ... that one should take the opportunity of events in Eastern Europe to expand EC membership so quickly that it would lead to its dilution."

In her split with EC partners, Thatcher will go on and on

Don't hold your breath for a final Clash of Titans with Mitterrand in Strasbourg tomorrow: there will be sequels

IAN DAVIDSON ON EUROPE

MEDIA hype has given the European summit opening in Strasbourg tomorrow all the advance suspense of a final Clash of Titans, with Mrs Margaret Thatcher pitted against President François Mitterrand as the battling champions of two irreconcilable views of the European Community.

On this occasion, however, media hype is likely to be doubly wrong. One, President Mitterrand will get his way, with a decision to launch Economic and Monetary Union at a special conference next year. But, two, nothing final will have been settled after all. Stand by for another heroic encounter in Return of the Titans next year; and the year after; and on and on and on.

Douglas Hurd, the British Foreign Secretary, gave the game away this week in Paris. He said that Mrs Thatcher would oppose an Inter-Governmental Conference in Strasbourg; but he added that if such a conference were held after all, Britain would take part.

This is an advance promise to surrender. Mrs Thatcher knows her hostility to an IGC will not give her a veto; the French can and probably will muster an overwhelming majority vote. That is what happened at the Milan Summit of 1985, and it led to the Single European Act in Luxembourg later that year. So Mr Hurd is, in effect, virtually inviting the majority to set up their conference.

Some people believe significant uncertainty remains whether the West German government will go along with President Mitterrand. In the face of the political earthquake in East Germany and in Eastern Europe, Chancellor Helmut Kohl might prefer to hang back from a major strengthening of German integration in Western Europe, especially in a scheme which meets misgivings from West Germany's central bank.

In fact, the situation is so politically charged that Mr Kohl has no neutral options, and therefore little freedom of movement. Any German wavering in Strasbourg will be interpreted as a major political decision of principle. If he were to fail to vote with President Mitterrand, the world would conclude that West Germany had decided to recover its political freedom, regardless of the consequences for the EC – or for the West generally. After everything that Mrs Thatcher has done in the Community and in Nato, he cannot now take her side, unless he has indeed decided to reduce Germany's commitment to the Community.

A decision to set up an IGC looks like the logical next step along the road of closer economic and monetary integration. What the decision will not do, however, is pre-empt the result of the negotiations in the IGC. The British Government will have ample opportunity in those negotiations for opposing the creation of a European Central Bank, for resisting Community constraints on national budgetary policies, and for setting up procedural road-blocks on the way to the later stages of EMU.

In other words, Mrs Thatcher can make a tactical withdrawal at Strasbourg, and nothing fundamental will have been settled between Britain and its European partners. This is a pity for Europe, and an even greater pity for Britain; and it is a situation which has ceased to be even slightly amusing to the rest of the Community.

There was a time, only a few brief weeks ago, when Mrs Thatcher commanded a wary respect on the Continent, for her strong personality, and even more for the success of her conservative economic policy. Respect has melted away with the exposure of the failures of the latter. The Elysée Palace now takes a cool view of Mrs Thatcher's tantrums; she has always fallen in line in the past, they say, and they expect her to fall in line this time too.

Some people claim that the Delors Plan is not an ideal recipe; in terms of pure guesswork they may be right. But the credibility of the mandarins of Whitehall is impaired by their economic record; the countries which are in favour of EMU are just as wedded as Britain to liberty and democracy, but they have consistently managed their economies much better, over several decades. It is not so much the size, as the quality of the pro-EMU majority that shows there is something fundamentally wrong with British thinking.

If Mrs Thatcher thinks she can mould the EC in her own image, she is living in cloud-cuckoo-land. For more than 10 years, from 1958 to 1969, the Five fought off the atavistic pretensions of General de Gaulle; 20 years later, the Europeans will not now bend to a British neo-Gaullist. Europe's integration could no doubt be guided by many different models, each with its own validity; but the Thatcherite model lost out in 1956, and has no chance of a come-back in 1989. There is no point in claiming to be different or superior, because there are only two real options: to go along with the rest of Europe, or to be left out.

Yet that is not necessarily the end of the story. Mrs Thatcher has no chance of winning the moral argument; but the traditional integrationist Community model could fail, if the Community were to start to disintegrate. The question now facing the Twelve is whether the Community will have the cohesive strength to withstand the dislocating effects of the changes in Eastern Europe. In particular, will the Community be able to cope with the attractive forces between the two Germanys?

The West German Government has repeatedly said, no doubt sincerely, that its policy remains embedded in the Community and Nato. Many people will look especially closely at what Chancellor Kohl says in Strasbourg as a conclusive litmus test of his true intentions. Yet in reality tomorrow's summit cannot provide clear evidence either way, since in Strasbourg the German Government is almost compelled to hew to the conventional Community line. As with Mrs Thatcher, so with Chancellor Kohl: neither can be committed in advance to what must be negotiated in the IGC itself. Only then will hard indications of true German intentions start to become apparent.

No matter what the Soviet Union and Mrs Thatcher say, no-one can be certain that German reunification will not take place next year. We do know that it is now high up on the agenda, and that there are some scenarios for re-unification which would be deeply damaging to the interests of Britain and of Western Europe. Any re-unified Germany is bound to dominate the Continent to some degree; the problem is to ensure that a mega-Germany would remain tied not just to the West but to the institutional rules of the Community. The worst possible outcome would be a scenario in which West Germany in effect preferred re-unification to membership of the Community.

Given the scale of changes which have taken place in Europe before our very eyes, which no-one predicted and which no-one can control, it seems to be reckless for a British government to conduct its European policy in nationalistic terms which can only be construed in Germany as an invitation to do likewise.

Singh shows flair in distributing cabinet posts

By David Housego in New Delhi and Gita Piramal in Bombay

MR V.P. SINGH, India's new Prime Minister, yesterday named a veteran politician with a commitment to clean government as his Finance Minister and a Moslem as Home Minister in what was seen to have been an imaginative distribution of ministerial portfolios.

The Prime Minister brought in Professor Madhu Dandavate, aged 65, a long-time Socialist with no experience of economic management but respected as an efficient former minister of railways and a pragmatist, to head the Finance Ministry.

Foreign Minister I.K. Gujral

Professor Dandavate said that his immediate task was to tackle India's "high degree of indebtedness" – suggesting that one of the first choices facing the Government will be whether to go ahead with fresh borrowing from the International Monetary Fund or to try to avoid this through import controls. Mr Dandavate said India's external debt, including deposits by non-resident Indians, was about $60bn and that the debt servicing ratio was more than 30 per cent.

The Prime Minister named Mr Ajit Singh to the other senior economic post of Minister of Industry. A northern farmers' leader, he is also a computer engineer trained in the US who has worked with IBM.

Mr Singh kept the sensitive Defence Ministry for himself but caused widespread surprise in appointing Mufti Mohammed Sayeed, aged 53, a Kashmiri-born Moslem and a former minister under Prime Minister Rajiv Gandhi, as his Home Minister.

Mufti Sayeed will therefore have responsibility for handling Hindu-Moslem tensions over the proposed shrine at Ayodhya as well as the incipient insurgency in Moslem-dominated Kashmir. His appointment is bound to raise apprehensions within the militant Hindu BJP party, an ally of the ruling National Front, but will be welcomed by Moslems.

At the first meeting of the cabinet last night, it was decided to establish a committee under the Finance Minister to control prices – particularly of sensitive food items like sugar and edible oils – and to call an all-party conference on Sikh militancy in the Punjab and Kashmir.

Among other prominent appointments, Mr Inder Kumar Gujral, a former opposition spokesman on foreign affairs and ambassador to Moscow, becomes Foreign Minister.

Mr Arun Nehru, a cousin of Mr Gandhi and also a minister in his government, was given the Commerce Ministry and therefore responsibility for import export policy.

Mr Devi Lal, deputy Prime Minister and a farmers' lobbyist, was put in charge of agriculture.

There had been concern that Mr George Fernandes, a former industry minister who had threatened to throw Pepsi-Cola out of India if returned to power, would return to his old post. He was made Minister of Railways.

In keeping the defence ministry for himself, Mr Singh remains in direct charge of inquiries into the Bofors scandal in which Mr Gandhi is implicated.

● Mr Ranjan Wijeratne, the Sri Lankan Foreign Minister, left for Delhi yesterday on a goodwill mission. *It is believed* the withdrawal of the Indian peace-keeping force from Sri Lanka will be high on the agenda.

Philippine debt accord put in doubt by coup attempt

By Stephen Fidler, Euromarkets Correspondent

ANXIETIES are growing about an agreement between the Philippines and its foreign bank creditors on its commercial debt. Bankers say it is premature to predict that the deal, struck in August between its leading banks and the government, will unravel. But prospects for its early implementation have been slowed by the sixth coup attempt against the Government of Mrs Corazon Aquino.

The accord was hailed in August as the way forward for the international debt strategy. Bankers, smarting from the political pressure which *forced them to come to agreement in* principle with Mexico, held out the voluntary nature of the Philippines deal as an example for the future.

Even before the attempted coup, the agreement was running into difficulties.

The idea had been that banks wishing to stay as lenders to Philippines would make new loans, perhaps of $1bn or more. A preliminary survey indicated that $800m-$900m might easily be forthcoming. Those wishing to exit would tender their loans for cash in a buy back which would be financed largely by resources from the World Bank and International Monetary Fund.

With its bank debt of about $8bn accounting for a small proportion of its $28bn foreign debt, it would have been difficult for bank debt reduction alone to cover the country's financial needs. This was one reason for the greater emphasis on new loans than in the Mexican package, for example.

A significant shortfall in the expected commitments for new loans now seems likely. This was in part because some large Japanese bank lenders, having been expected to make new loans with the approval of *their Ministry of Finance,* in the end opted for the debt buy-back.

Banks have indicated willingness to make only about $570m in new loans. The books are not yet closed but the coup attempt, even if it fails, will not encourage uncommitted banks to put up new funds. If these funds are not forthcoming, there is a danger that those banks which have indicated an intention to make new loans will pull back from the transaction. Even if they stay committed and the Philippines is content with the lower amount, there is then the question of the reaction of the IMF, under whose auspices the whole package has been put together.

The other part of the deal, the debt buy-back for 50 cents has been less of a problem. The Government accepted tenders from 140 commercial banks to buy back $1.312bn of debt, after receiving tenders of $1.83bn from 156 financial institutions.

The Government appears to have concentrated on slimming down its bank lender group by about 90 banks, leaving about 50 as longer-term lenders. Beyond that the basis for rejecting other tenders seems to be less clear, although loans to finance a nuclear power project in the country have not been accepted.

Bankers report differences in perception about what "voluntary" means. To the banks, it means they are within their rights to do nothing, while the Government would rather interpret it as indicating that there is freedom of choice between the two options.

Significant political effort from the US and Japanese governments is ultimately likely if the deal looks in danger of collapse. Without it, the Brady initiative, launched in March by the US Treasury Secretary, will have no non-American jewel in its crown. Near-impasse is reported in negotiations between bankers and another leading non-American Brady candidate – Morocco.

Vietnam looms again as boat people fail HK test

Most immigrants are failing to put up a convincing case against repatriation, writes Michael Marray

ABOUT 90 per cent of Vietnamese boat people going through the *Hong Kong Government's* screening process have so far failed to qualify for resettlement in third countries. Thus they face a forced return home under the planned programme of mandatory repatriation.

If this trend continues it will mean that over 57,000 of the 44,000 Vietnamese who arrived after screening was introduced in June 1988 will be forcibly sent home. (Hong Kong's total Vietnamese population is 57,000).

The immigration department and the refugee status review board, to which the boat people may appeal, have so far dealt with cases involving 7,000 and 4,000 people respectively.

The Hong Kong Government and those involved in the process reject allegations from human rights groups that the boat people are not getting a fair hearing.

"It is never easy to listen to a man's story and tell him he's a liar," comments Mr Francis Blackwell, a former judge who chairs the review board. But he adds that having processed several thousand cases he has found clear patterns emerging and it is often possible to tell from the story which camp the appellant has been living in. Mr Blackwell dismisses criticisms from activists who claim the system is unfair and that *there is government pressure* to keep the number of successful appellants down.

"Nobody has ever told me how many to screen in [recommend resettlement] and screen out [recommend repatriation]," he said. The Government also points to the close involvement of the United Nations High Commission for Refugees. The initial screening is carried out by the Hong Kong Immigration Department and the commission has unlimited access to all interviews and case files.

The commission has had to *intervene in more than 30* cases of people screened out, raising questions about how the screening is done. One man rejected for refugee status was a Vietnamese who worked in Czechoslovakia as a guest-worker and became involved with the Charter 77 political protest movement. He was immediately arrested on his return to Vietnam. Yet the screening process rejected him as a political refugee. The commission intervened, and he will not now be sent home.

So far 703 out of 7,165 boat people *have been screened in*, including those who have relatives abroad and qualify under the family reunification category. The 6,462 screened out as economic migrants gives a failure rate of 90.2 per cent, which the authorities say is coincidental and not proof that there is a policy to admit only 10 per cent of applicants.

Those screened out have 28 days to go to Mr Blackwell's review board and the vast majority take the opportunity to be represented by legal consultants working under the *auspices of the UN commission.*

The board began its hearings in June, replacing the unwieldy system where cases were reviewed by the governor sitting with the executive council.

The board has heard 1,588 cases involving 3,924 people, reflecting the large number of families among the boat people in Hong Kong. The board has upheld the initial decision in 1,491 cases involving 3,631 people. In 97 the decision has been overturned, meaning that 293 *people, 7.5 per cent of appel*lants, have been screened in.

Mr Blackwell says that political persecution is the most common reason to grant refugee status. "Even at the factory level they might have disagreed with the policy and been suddenly categorised as opposed to the Government," he said. "Life can then become distinctly unpleasant."

However, in general Mr Blackwell says that he finds the appellants are seeking a better life outside Vietnam and not facing persecution.

Despite international opposition, the Hong Kong Government insists this is the logical outcome of the screening policy, which was first introduced on June 16 1988, when the flood of arriving boat people sometimes reached 1,000 a day. Previously boat people were automatically classified as refugees, which allowed them to stay in Hong Kong camps pending resettlement in third countries.

The Hong Kong administration has a big logistics problem in transporting back to Vietnam those who have been screened out, and government representatives are searching for suitable ships or aircraft to charter.

The Government faces large backlogs both in screening the boat people to decide who goes home and in transporting them once the decision is made. The review board has a target of hearing cases involving 400 people each week but even if this is met it could take two years to complete the task, even if there is no new influx of boat people next spring as favourable winds again blow from the coast of Vietnam towards Hong Kong.

More boat people queue at a Hong Kong centre to discover if they will be relocated overseas or sent back to Vietnam

Israeli export agency reveals $37m deficit

By Hugh Carnegy

AGREXCO, Israel's monopoly farm produce export marketing agency, has disclosed a deficit of $37m (£24m), much of it owed by the country's producers, and has called on the Government for help.

The news emerged only days after Agrexco, which is 50 per cent owned by the state, signed a breakthrough agreement to sell $30m worth of fresh fruit and vegetables to Moscow in the first six months of next year. Officials hope the contract will lead to the opening up of a significant market for Israeli products in the Soviet Union.

Agrexco officials insisted that the deficit posed no threat to its operations and that cash flow in the current season was stronger than last year. The agency has an annual turnover of about $450m, handling virtually all Israel's exports of fresh agricultural produce.

The officials said the £37m deficit represented the position at the end of 1988, and the situation had not worsened this year. A large portion was attributed to the failure of *Israeli marketing and production* companies, which together own the balance of Agrexco not held by the Government, to repay loans from the agency.

Israel bans leading Palestinian

By Hugh Carnegy in Jerusalem

THE Israeli authorities yesterday banned Mr Faisal Husseini, the prominent Jerusalem Palestinian, from entering the West Bank and Gaza Strip, virtually identifying him as the most *senior leader of the Palestinian* uprising, or *intifada*, in the occupied territories.

Army orders imposing the ban for six months from yesterday – three days before the sensitive second anniversary of the *intifada's* start – were delivered to Mr Husseini at his home on the Mount of Olives in east Jerusalem citing only public security as the reason.

But detailed briefings prepared for reporters by military officials spelled out a list of accusations against him including that he was active in co-ordinating the various Palestine Liberation Organisation and Islamic Fundamentalist factions in the territories and establishing himself as the senior activist from Fatah, the mainstream PLO faction headed by Mr Yassir Arafat, the PLO leader.

Mr Husseini, from one of Jerusalem's most prominent Arab families with a long history of Palestinian nationalism, spent most of the first year of the *intifada* under detention without trial. Since his release last January, he has assumed a leading public role as an advocate of the uprising and supporter of PLO policies for an independent Palestinian state in the West Bank and Gaza.

He is widely regarded by foreign diplomats, Palestinians and Israeli moderates alike as a person who would play a central role, out front or behind the scenes, in any negotiated settlement with Israel. But Israeli right wingers – especially Jewish settlers in the occupied territories – have consistently pressured the *Government to act against him as an instigator* of *intifada* violence, once even distributing "wanted" posters carrying his picture.

The military yesterday *said* he had been personally involved in aiding anti-government actions, had initiated illegal protests such as the recent tax boycott by the West Bank town of *Beit Sahour and had attempted to set up an* independent Palestinian judicial system in the territories.

The ban on *Mr Husseini did not include* travel within Israel or overseas, which he has been allowed to do since his release from jail.

The mother, sister-in-law and nephew of Ahmed Shukri, suspected of killing an Israeli man, sit by their wrecked home after it was blown up by the Israeli army yesterday

China renews criticism of Hong Kong

By John Elliott in Hong Kong

CHINA HAS continued its four-month-old attacks on Hong Kong over the past two days at a meeting in Hong Kong of the Sino-British Joint Liaison Group which is preparing for China's resumption of sovereignty over the British colony in 1997.

The attacks have been more muted than at the last meeting of the group in London two months ago, when the two countries met formally for the first time after the June crackdown in Peking. UK officials hope that some practical work on details of the 1997 handover will be resumed before the session ends *tomorrow*.

During the past two days, China's representatives have repeated accusations that Hong Kong had become a centre for subversives who want to bring down Peking's Communist regime.

They also allege that the UK and Hong Kong are trying to "internationalise" the colony's future. They repeated complaints about plans for a reclamation and redevelopment *scheme near the colony's* central area, which will mean closing part of a British naval base. They want the base left for their own possible use after 1997.

Gadaffi to boost role of private sector in economy

AFTER years of rigid state control, Libya is encouraging private business so long as it *follows Colonel Muammer* Gadaffi's ruling that workers are partners and not slaves, Reuter reports from Tripoli.

"The intention is to expand gradually the role of individuals and co-operatives in the economy," a confidential official document says.

It indicates the authorities will not allow private businesses to grow into capitalist-style companies where the workers receive wages and the owners reap the profits.

But foreign economists say the proposed measures would boost the private sector and follows encouraging early results of an economic liberalisation programme launched in 1988.

The Government plans to cut its budget deficit by phasing out all subsidies on foodstuffs such as wheat, flour, sugar, tea and salt. However, controls on prices and exchange and interest rates will not be eased in the near future, the document said.

After years of strict control of all businesses except small *farms and private* artisans, the Government last year allowed private shops to reopen and began *to* encourage small enterprises in the services and manufacturing sectors.

Ownership of some state-owned factories has been transferred to the employees under the "partners, not wage slaves" scheme. Libya depends heavily on oil but lower world prices in recent years have hit the economy.

The document, a rare insight into government economic planning, says: "These initiatives should be considered the start of a gradual process that will be deepened and developed in the light of evolving circumstances."

The only workers in private companies must be family members of company partners, according to Gadaffi's theories. In practice, partnerships often employ foreigners illegally.

The next stage of the liberalisation will come when the Government allows private companies and partnerships to import directly most types of goods.

"Eventually public and private entities will share import activities equally," the document says. The public sector dominates at the moment.

To stimulate the private sector and ease balance of payments *pressures*, foreign consultants have urged the Government to devalue the dinar to boost exports, raise interest rates to encourage savings and end fixing retail prices.

Tokyo to give $35m funding to Peking

JAPAN has given China a grant of $35m, its first government aid to Peking since relations were soured by a military crackdown in June, Reuter reports from Peking.

A Japanese embassy official said yesterday that the two sides had agreed on the gift last year and Japan's suspension of new funding to China remained unchanged.

Western nations and Japan froze government lending and aid to Peking after China's army crushed a student-led campaign for democracy in June, killing hundreds and possibly thousands of people.

The grant was originally planned for May or June this year and was postponed because of the unrest in China.

China's official press hailed the gift as a step toward restoring ties between the two countries.

Peking is keen to lure back Western loans and aid money, badly needed to pay for modernisation at a time when the country is strapped for cash.

The Japanese official said Tokyo wanted Western nations to improve their ties with Peking and opposed international policies that would isolate China.

"We do not think that this grant will cause *problems* in our relations with Western countries," he said.

'Outlaw' Aoun's refusal to go paralyses Lebanese peace process

All parties involved agree Christian general is the problem, but none appears to have the means to get rid of him, writes Lara Marlowe

THE Arab League's special committee on Lebanon *which met in Riyadh at the* weekend concluded that "the rejection by General Michel Aoun of the Taif agreement and his refusal to recognise the legitimacy of the new Lebanese Government constitute the main obstacle to national understanding as well as the principal reason for the dangerous military escalation in Lebanon".

The committee was referring to the agreement, reached by Lebanese MPs in the Saudi town of Taif, on an Arab League plan which gives more constitutional power to Moslems and provides for a partial Syrian withdrawal.

Yet 12 days after the election of Elias Hrawi as Lebanon's 10th president and the formation of his "national reconciliation government", neither the Arab League, President Hrawi, Syria, France, the US nor the Soviet Union has found the means to overcome Gen Aoun.

President Hrawi's announcement that he was ready to use military force to evict Gen Aoun from the presidential palace at Baabda preceded a *Syrian military build-up* in Lebanon that sent diplomats scurrying and caused consternation in the corridors of Baabda. The threat and the muscle flexing have not yet led to what Gen Aoun predicted would be "the final battle".

President Hrawi has given two justifications for his failure to evict Gen Aoun in his specified time frame: "deference to diplomatic efforts" and the continued encampment of several thousand "innocent people around the former Lebanese army commander".

Little matter that the "human shield" which deterred the attack has come to resemble a permanent county fair, complete with tents, acrobats and vendors of doughnuts, plastic Lebanese flags, sandwiches and coffee.

But the real reason for President Hrawi's restraint has been more firmly rooted in the reality of Lebanon. Mr Hrawi had counted on Lebanese army troops serving under Gen Aoun to rally to General Emile Lahoud, the new commander in *chief he appointed on November 28.* After the Christian units of the Lebanese army failed to recognise President Hrawi's legitimacy, the Maronite Christian president could not enlist the assistance of a foreign power – regarded as an enemy by many Lebanese Christians – to attack the very people whose loyalty he so needs to win. To take the Christian enclave by force would mean an interminable inter-Christian war within Lebanon's larger Moslem-Christian conflict. It would undermine President Hrawi's claim to represent his fellow Christian Lebanese as well as pro-Syrian Moslems.

The US and the Soviet Union want to help President Hrawi, but like Mr Georges Saadeh, the leader of the Christian Phalange party, they supported the Taif agreement "as a peace agreement, and not as the prelude to another war".

"We want no more dead in Lebanon. We are in complete agreement on that," US President George Bush said after his discussions with *Soviet President Mikhail Gorbachev* off Malta.

Furthermore, the US, like the Soviet Union, knew that Gen Aoun would respond to a military offensive by shelling the Moslem population of West Beirut. Their joint approval of such an action would be condemned by *the* Vatican, Israel and France, which in August sent nine warships to the eastern Mediterranean to prevent the crossing of the "red line" in August.

The Syrians have in effect been paralysed by Gen Aoun's continued rejection of the Taif process. They cannot attack Gen Aoun without a request from President Hrawi, who cannot ask them, and against the will of the superpowers, who cannot back them.

Yet Damascus holds the ultimate trump card: if foreign powers will not dislodge Gen Aoun, more blood-letting is likely to follow.

But the paralysis has also affected Gen Aoun. He has not gained an inch of territory and can offer his supporters only interminable general *strikes*, economic decay and encirclement. Gen Aoun sought international support for his cause. But in the end it took an Algerian Moslem diplomat to stop the artillery bombardments that Gen Aoun brought upon the Christian enclave.

The international community turned a *deaf ear to* Gen Aoun and supported first President Rene Moawad and then his successor and the Christian area of the Lebanon is too small, too vulnerable, to exist as a separate country, even if Gen Aoun dared to betray his stated aims and beg for the partition of Lebanon.

According to the pro-Syrian Lebanese newspaper As Safir, the US ambassador to Damascus, Mr Edward Djerejian, told President Hrawi's envoys that the US would intervene through a third party to obtain Gen Aoun's departure.

It is difficult to see who but the French could intervene in such a manner. Mohammed Hussein Fadlallah, the spiritual leader of the pro-Iranian Hizbollah, may, in a certain sense, have been accurate when earlier this week he called France "the agent of the US in Lebanon".

The French Government has another problem. The Lebanese Maronite lobby is *fashionable* in Paris. Opinion polls *show that a* higher percentage of French than of Lebanese Christians support Gen Aoun. While President Mitterrand's Socialist government ostensibly supports the Taif agreement and President Hrawi, pressure at home cannot be discounted.

However, *the French Government* could be the instrument of Gen Aoun's departure. Mr René Ala, the French ambassador to Lebanon, is reported to have told a senior Lebanese official in East Beirut that the French Government would invite Gen Aoun to Paris until a timetable for a Syrian *withdrawal from Lebanon* could be established.

It is also said in Beirut that the French might seek a UN Security Council resolution on the sovereignty of Lebanon and the withdrawal of all foreign forces from the country. Such a resolution would allow Gen Aoun to say he had at least obtained recognition of his demands.

In the meantime, Lebanon remains a virtual time bomb. *President Hrawi said yesterday that he* would give Gen Aoun two weeks to leave Baabda and threatened to resign if he failed to shift him. This appears to confirm reports that President Hrawi had received assurances from foreign diplomats that their governments would obtain Gen Aoun's departure.

But Gen Aoun has more than once risen from near defeat. If he does not create his own political party, accept an ambassadorship or a government advisory post – as many foreign diplomats hope – he may continue, as Prime Minister Selim el Hoss says, "an outlaw, leading a mutiny that will result only in partitioning Lebanon".

CoCom rocked by the crumbling wall

West's curbs on technology can't keep pace with changing world, writes David White

FOUR DAYS a week, year-round except for holidays, in an annexe of the US embassy in Paris, works an organisation that does not exist.

Every now and then, at an important meeting, it floats into the public awareness and then out again. The Co-ordinating Committee on Multilateral Export Controls (CoCom) is a sub-group to a more senior body that was never set up. It *has a small secretariat*; 17 countries maintain permanent delegates. But it is not recognised, records of its discussions are not published, and it has no formal tie to the North Atlantic Treaty Organisation, although it was set up at the same time in 1949 and has mostly the same members.

The work of this spectral body is like painting the Forth Bridge. Reviewing the catalogue of products and technologies deemed to be of military significance and therefore unsuitable for communist clients takes four years to get through. It covers munitions, atomic energy and, most debatable and most time-consuming, civilian industrial products with military uses.

CoCom decided some years ago to break the list down into four groups, each with a mix of different items, balanced according to volume and the difficulties that were expected to arise. The cycle has been completed once and Group A has come back on the second round, and so it is set to go on, except that the world the system was created for has dramatically altered.

Do the West's security controls on civilian exports make sense now that walls between Eastern and Western Europe are crumbling? How can West German companies work to modernise East German industry with limits on what they take with them? How can a country such as Hungary find a place in the technology race?

A high-level Cocom meeting in October decided further work was needed before any fundamental relaxation. That was before the changes in East Germany and Czechoslovakia.

Pressure had already been brought to make exceptions for Poland and Hungary, in the same way that CoCom did in 1985 for China, with a differential set of rules. Can the US and its allies continue to treat the Warsaw Pact as a bloc, while encouraging Eastern European countries to loosen their dependence on Moscow? *And where should the dividing line now be drawn?*

Pressure has also been mounting to trim the list of controlled items right back: fewer barriers, but higher, to prevent circumvention. Precision machine tools have been at the centre of this debate, with Bonn campaigning hard for changes, but CoCom has yet to resolve the issue.

British officials argue that CoCom pursues strategic, not economic, interests, and that there is no strategic rationale for differential treatment. The Warsaw Pact remains in place, this argument goes, and the KGB is omnipresent.

Some fear that differentiation would only compound the bureaucratic complexity. The UK is among those favouring a shorter list, more enforceable and more credible to industry, which would like to see fewer regulations, evenly implemented. But cutting items is not simple, either. It requires the same effort of strategic assessment as would including new items.

A recent report by a committee of the Western European Union's parliamentary assembly said Cocom was "fast appearing to be a relic of the Cold War policy". President Mikhail Gorbachev argued in July that scientific and technical links were being "bled dry" by Cocom restrictions and many rules were "absurd".

Western defence ministries will continue to militate strongly for limits in technology areas which they see having military applications. But opinions across the 17 – all of Nato except Iceland, plus Japan and Australia – cover a broad spectrum. The US has held down the conservative end, with Japan and the UK not far away. They maintain that that the restricted technologies are not, in the main, the ones Eastern countries most need to stimulate their civilian economies.

The US, most recently through Mr Lawrence Eagleburger, deputy Secretary of State, has signalled its willingness to "respond constructively" to political changes. But how far is it ready to go? It used the October high-level meeting to show domestic opinion – and US companies – its determination to stand up to wayward allies.

This followed allegations against Olivetti of Italy – denied by the company – that it violated CoCom rules by upgrading hardware and software in the Soviet Union. The case echoed *a previous affair* involving Toshiba of Japan and Kongsberg of Norway, which were accused of supplying banned milling machines that enabled the Soviets to make ultra-quiet submarine propellers. The US says the technology cost Moscow $35m, but that it will cost the Pentagon many times more to regain its capability for detecting Soviet submarines.

Since it has no official status, *CoCom has no direct* enforcement power. Each country applies the rules in its own way, under its own legislation. In the UK this is the Export of Goods (Control) Order – the Department of Trade and Industry's responsibility. CoCom is now trying to harmonise enforcement, while simultaneously phasing out controls on trade in these items between its members.

"General exceptions" allow the rules to bend. For instance, in the UK, a company will apply to the DTI to export something on the list. The DTI consults the Ministry of Defence and the Foreign Office and they may pass it. Britain then puts it to Cocom. Unanimity is required to get it through, but absentees are deemed to approve.

The US stopped "general exceptions" to the Soviet Union in 1979 in response to the invasion of Afghanistan – and was criticised for using CoCom as a political vehicle. It lifted the veto this *summer*.

CoCom's lists are secret but each member publishes its own, ranging from arms to certain kinds of ball bearings, from robots to specialised metal alloys.

It is argued that the net is never 100 per cent effective – and requires loosening when technology becomes easily available from alternative third-country suppliers in Asia – but succeeds in slowing down advances in Soviet military technology and making it more expensive.

CoCom's more cautious members say it must steer clear of political gestures. But it is inevitable that both the scope of controls and CoCom itself will come increasingly into question.

Where the West draws the line

THE Soviet Union has enough data-processing capacity to mount a manned space programme. But the West still tries to prevent it obtaining some personal computers. Why?

Last year, the threshold for computers allowed to pass unhindered to Warsaw Pact countries was raised to include 16-bit models. This was mainly because they could be bought anyway from places outside CoCom controls.

But a line is still drawn at top-of-the-range 32-bit computers which in the West you might commonly find in a company accountant's office.

Can this technology be kept within walls? Can the West stop people smuggling out pocketfuls of silicon chips? The answer is no, but the military concern of the US and its allies is to hinder development of production capacities in the Warsaw Pact which would facilitate weapon programmes through computer-aided work-stations.

Computers are what keeps Cocom most busy. The rules are complex. Some equipment is passed containing components that are controlled, on the calculation that nobody would buy a computer to cannibalise a chip or medical diagnosis equipment to take out the computer.

Equipment up to some IBM PC/AT-compatibles is now releasable. But Western *intelligence services believe they* may have achieved a "holding point": the 80386 chip used in the higher-range IBM computers is produced only by Intel of the US.

The Soviets and their allies, they say, have produced only small quantities of computers compatible with IBM PCs. Indigenous components are six to eight years behind.

The lag is reckoned to be almost as long in minicomputers, longer in IBM-based mainframes, and 12-15 years in superminis and high-performance peripherals such as disc drives.

The computer relied on to design projects such as the MiG-29 Fulcrum fighter is 25 years old. Called the BESM-6, this workhorse of Soviet research and development is "extremely slow", with about *0.2 per cent of the processing* power of the archetypal Western CRAY supercomputer. Its intended replacement is believed to have run into problems.

Mannesmann group wins telephone concession

By Hugo Dixon

THE West German Government plans to announce this morning that a licence to operate the country's second mobile phone network has been granted to an international consortium led by Mannesmann, the German engineering group.

The new licence, which will put the Mannesmann consortium in competition with the state-run Deutsche Bundespost Telekom, is one of the most valuable concessions ever awarded by a government to the private sector.

Analysts estimate that it could have fetched up to $10bn if auctioned to the highest bidder.

The Mannesmann group, called Mannesmann Mobilfunk, has won the coveted licence following a contest with nine other consortia comprising about a hundred companies from across the world.

The other members of Mannesmann Mobilfunk are: Pacific Telesis, one of the US "Baby Bell" telephone companies; Cable and Wireless, the international telecommunications group based in Britain; Lyonnaise des Eaux, the French water company; Deutsche Genossenschaftsbank, a private German bank; and Treuhanderische Reserve.

The award will be a severe disappointment to members of rival consortia. Four of these are from the UK: British Telecom, Racal Telecom, STC and Securicor.

The new licence will give Mannesmann Mobilfunk the right to set up a cellular system in West Germany conforming to the latest *computerised* technology from 1991.

This system will link into the pan-European mobile network, planned to start at the same time, which will allow people to drive across the continent using the same handsets.

There has been tremendous excitement over the award of the second German licence because of the explosion in demand for mobile phones elsewhere in the world, especially in the UK and US. Germany has lagged behind these developments, but is regarded as an extremely attractive market because of the size of its population and its wealth.

Dr Christian Schwarz-Schilling, Germany's telecommunications minister, plans to announce his decision at 9 am. This follows a meeting of the West German cabinet yesterday.

Airbus component order awarded to Indonesia's IPTN

By John Murray Brown in Jakarta

IPTN, Indonesia's state aerospace company, has won a component supply contract which officials say is worth $100m, with Airbus Industrie, the Toulouse-based European consortium.

The contract, to make cockpits, fins and other airframe parts, is understood to be an offset deal, part of a sales agreement signed in November under which Garuda, Indonesia's national airline, will acquire nine A-330s at an estimated cost of $1bn. *Indonesia* recently unveiled plans to spend $3.6bn re-equipping its national fleet, to position itself for the projected increase in Asia Pacific air traffic.

However, Mr B.J. Habibie, the head of IPTN, insists on a large offset component in any purchase made by Garuda or the armed forces, in a bid to raise company revenues and increase technological know-how. IPTN has subcontract deals with Boeing and General Dynamics of the US, and last month agreed its first aero-engine collaboration with Rolls Royce of the UK.

Yesterday there was still uncertainty over how the Airbus deal is to be financed. Garuda is said to favour a direct balance sheet purchase supported by export credits to keep the aircraft's residual value on the company's books. For offshore financing Garuda, like all state owned companies, would need government approval.

The Finance Ministry prefers an operational lease so as not to add to *Indonesia's official* debt, a heady $40bn. Garuda has an agreement with International Lease Finance of California for eight Boeing 737-300s.

In August Garuda signed a *further* leasing deal with a consortium led by Shannon-based Guiness Peat Aviation. The deal included Aerowisata, a wholly owned subsidiary of Garuda, and Bimantara, a company part-owned by a son of President Suharto.

● Canada is providing US$78m in loans and concessionary financing for construction of a 250 tonnes daily unbleached pulp mill for Panjapel Pulp Industry in Thailand, Robert Gibbens reports from Montreal.

Kloeckner Stadler Hurter of Montreal, the pulp and paper engineering arm of West Germany's Kloeckner group, is designing and supervising construction of the mill. Output will go to a linerboard plant nearby.

Philips plans HDTV tubes plant in US

By Laura Raun in Amsterdam

PHILIPS, the Dutch electronics giant, is planning to build a $100m plant in the US where colour TV picture tubes and components for high-definition TV (HDTV) will be made.

Initially more than 300 new jobs will be created with the plant's construction.

The plant represents *Philips'* most concrete effort yet to promote the European standard for HDTV in the US, which could account for 25 per cent of the $40bn world market forecast *in 2010 by some industry* experts. Europe and Japan have developed rival standards and want the US, which has lagged in the race, to adopt one of theirs.

Philips argues that the standard it has agreed with Bosch of West Germany, Thomson of France and Nokia of Finland is better because it can be received by both conventional and HDTV sets. A world standard is supposed to be decided next year by the International Radio Consultative Committee (CCIR).

HDTV provides a much sharper picture than conventional TV and is expected to have *widespread applications* in computers, semiconductors, consumer electronics and defence. In the past Philips has applied for US Government aid to promote HDTV technologies *but no decision has been made*.

The new plant is to be built through Philips Display Components, a division of North American Philips, in two phases, the first designed to make 1m 29-inch standard and high-grade colour picture tubes a year. The second phase is intended to produce tubes for upscale HDTV models.

The first phase is supposed to be finished within 18 months from groundbreaking. No decision has yet been made about a deadline for the second phase although both combined will encompass 300,000 square feet.

Philips is considering several sites in Tennessee, Kentucky, Ohio and Michigan with a decision expected soon.

Developed countries grapple with textile competition

By Alice Rawsthorn

THE textile industries in North America, Japan and Western Europe are experiencing a period of consolidation, in which companies are restructuring to cope with the more competitive climate in the international marketplace.

An Economist Intelligence Unit study says textile companies in Japan and the West are increasingly involved in the specialist product sectors, which demand higher standards of quality and service.

Most of the developed economies have seen buoyant consumer spending in recent years. The pace of growth has slowed in the US and some Western European countries – such as the UK – since the middle of last year.

But spending is still rising in most European economies. And the Japanese clothing market has been expanding rapidly for two years.

The textile companies have used these favourable economic conditions, according to the EIU, to prepare to cope with increased competition in the global market.

The study identifies three trends that characterise the industries in the developed economies:

● Upgrading output towards value-added products;

● Diversifying into a greater variety of product types and styles to meet consumer demand;

● Using smaller, more versatile production units.

These trends have emerged in an environment where the cost of labour has become less important in determining competitiveness, given that other factors – such as service and product quality – have become more significant.

Most of the big textile companies have continued to shed labour because of the need to improve productivity. The textile workforce in Western Europe has been reduced, although the level of employment has remained stable in the US.

Moreover, as the industry prepares for the phasing-out of the Multi-Fibre Arrangement, the bilateral agreement that regulates the world trade in textiles, the EIU says there is evidence that the increase in textile and clothing imports into some developed economies from emerging industries in Asia is slowing down.

Textile and Clothing Trends in North America, Japan and Western Europe, published in Textile Outlook International from EIU, 40 Duke Street, London, W1A 1DW for £75.

Bomb kills 50 as Bogota anti-drugs war intensifies

By Sarita Kendall in Bogota

AT LEAST 50 people are thought to have been killed in a powerful truck bomb which shattered buildings for several blocks around the security police (DAS) headquarters in Bogota. The bomb exploded early yesterday morning, leaving a 30 foot deep crater outside the DAS offices.

The attack is one of the most significant against the Colombian authorities in three and a half months of the war with drug barons.

One side of the 10-storey building was blown away and the interior collapsed into a mass of rubble and twisted metal. Twenty blocks away, *broken glass covered the pavements*. Over 100 people are reported seriously injured and many more wounded.

General Miguel Maza, the head of DAS, was unhurt, apparently because the walls of his office had been especially strengthened. The general, who escaped a car bomb by seconds earlier this year, led a series of investigations into drug trafficking groups and established links between foreign mercenaries and cocaine traffickers.

The director of Colombia's Civial Aviation Department has also confirmed that a bomb exploded in the passenger cabin of Avianca's Bogota-Cali flight on November 27. The jet's fuel tanks apparently caught fire and the aircraft disintegrated and crashed near Bogota, killing 111 people.

Several rumours about the motive for the bomb are circulating: one is that traffickers were aiming for two cabinet ministers who changed plans at the last minute and did not take the flight; another speculated that the Medellin cocaine cartel was after five informants on the aircraft.

This has been a critical week in the government's anti-drug war. Congressional representatives belonging to the governing Liberal party openly defied the interior minister by trying to push through a resolution to include extradition for drug traffickers in a national referendum.

Mulford forecasts $35bn fall in US trade deficit

By Lionel Barber

THE US trade deficit will fall "substantially" this year but the Bush administration is concerned *about whether it* can continue to be cut, Mr David Mulford, Treasury Under-Secretary, said yesterday.

Mr Mulford predicted a decline of around $35bn (£22bn) *this year. This could* reduce the 1989 merchandise trade deficit to just over $90bn.

Speaking via satellite to an audience in West Germany, Mr Mulford said he was "not alarmed" about the dollar's recent steep 10 per cent decline against the West German mark. He noted that the dollar had fallen by only 2 per cent against the yen.

There was no need at the moment to call for a meeting of the Group of Seven finance ministers to discuss exchange rates, he said.

Traders in Frankfurt interpreted Mr Mulford's comments as signalling that the Federal Reserve has refrained in recent weeks from intervening to support the dollar, and drove the currency down further.

Dan Quayle plays the tough guy

By Lionel Barber

VICE President Dan Quayle continues to cultivate his image as the conservative alter ego of President George Bush in dealings with the Soviet Union.

Two days after the Malta summit, Mr Quayle said in an interview that he saw "little change" in Soviet foreign policy. The US, he said, was dealing with a "totalitarian government" which wants to "create instability" in areas such as Central America.

The White House has issued a ritual *denial that the President* and Vice President were at odds over US-Soviet relations. In fact, most observers believe the difference in tone is deliberate.

Yesterday, Mr Gennady Gerasimov, the Soviet Foreign Ministry spokesman, urged Mr Quayle to sense the realities of life and the new demands of the times.

As Mr Bush edges towards a more co-operative relationship with Moscow it suits him to have Mr Quayle play the role of sceptic because it protects his conservative base (which has always had its suspicions about the consensus-seeking President).

As for Mr Quayle, he has spent his first year in office trying to shed the lightweight image which he displayed during the 1988 election campaign.

The former junior Senator from Indiana knows that snuggling up with the conservative wing of the Republican party is his best bet to create *his own political base – and* even gain a shot at the presidential nomination in 1996.

The Bush-Quayle double-act does, however, go beyond mere party politics. Post-summit polls show that Americans are split over whether the Cold War is over, whether the improvement in superpower relations are temporary, and whether the US should give aid to Moscow *to improve the* Soviet economy.

Poisoned chalice of Brazilian presidency

Given the state of the economy, Lula may be better off losing, writes Ivo Dawnay

THE WORST thing that could happen to Mr Luis Inacio "Lula" da Silva on December 17, after an extremely successful presidential campaign, is actually to be elected as Brazil's new head of *state*.

That, at least, is the view of some of the socialist candidate's supporters, now looking past the ballot on December 17 to a deeply troubling economic outlook.

If the polls and the financial markets are to be believed, however, his supporters need not be too concerned about his prospects.

Collor, left, and 'Lula': Don Quixote and Sancho Panza?

According to most public opinion soundings, Mr Fernando Collor de Mello, the centre-right front runner, is a comfortable 12 points ahead.

And were the gap closing significantly, the howl would soon be heard in Brazil's hair-trigger markets where the bellwether "black" dollar has recently even drifted back somewhat, to a margin of about 100 per cent on the official *exchange rate*.

"Lula", as he is commonly known, may well narrow the gap. His portrayal of his rival as a *continuista* – the natural heir to the oligarchy headed by outgoing President José Sarney – is gaining a following among the 30-odd per cent of the 82m-strong electorate considered by pundits to be alive to such nuances.

But, as Dr Walder de Goes, a sardonic Brasilia political scientist, points out: "The uninformed poor don't want one of their own as president. They want someone rich and beautiful." A valiant, preferably narrow, defeat will ensure a huge leap in Lula's prestige in the *Congress and a leading role in* opposition.

Rich and beautiful he may be, but for Mr Collor what will be more useful are the luck and skill that have already got him within days of the top job in the world's third-largest democracy. The short-term outlook is daunting, indeed.

For the same stormy political landscape that will be so promising for his rival in opposition, looks like a potential Somme battlefield for a new president with fewer than 20 declared supporters in the 526-member legislature.

Optimists point out that on Mr Collor's side will be the moral weight of some 40m *votes, a short honeymoon of* goodwill and, most important, the patronage of 30,000 jobs to dangle before the country's notoriously venal politicians. Pessimists counter, however, that this is inadequate cement to stiffen the marshmallow backbones in Congress for the measures needed to confront an inflation rate forecast at well over 50 per cent a month.

To reduce a budget deficit of, at the very least, 8 per cent of gross domestic product in operational terms, the new president will have to increase tax receipts, slash already stripped-down budgets, rush through privatisation measures and dismiss civil servants by the thousand.

Much of this will require amendments to the Alice-in-Wonderland constitution proudly approved by the very same congressmen only little more than a year ago – a pro*cess that needs three-fifths* support.

Some, like the wily former Planning Minister, Senator Roberto Campos, believe that the right's new champion has already exhibited the political deftness needed to pull this off if only it coincides with an economic crisis of suitably apocalyptic dimensions.

At the moment, the senator is biding his time. "I do not *think we have really* yet reached the catharsis necessary to turn the thing round," he said this week. What is certain is that the new president will have only a few weeks to try, before Congress flinches at the thought of alienating its electorate just months before another poll.

In that case, he will have only two options: to attempt to use referenda to press his strategy or to create a genuine national party to fight for his programme at the ballot box. There is little time for either.

While not ruling out a miracle, the sceptical Dr de Goes believes the expectations of the Brazilian masses are too high to be met. The likely conse*quence of an impasse between* legislature and executive will be the bringing forward from 1993 to 1991 of an already scheduled national plebiscite on whether to introduce a par*liamentary system of government*.

Such a system is alien to most Brazilians, who favour heroic presidentialism. One of the few slogans which Lula shared with his left-wing rival, Mr Leonel Brizola, is that neither wanted a presidency reduced to the pitiful prerogatives of "the Queen of England".

If a parliamentary system is agreed, one possible – if somewhat improbable – outcome of Brazil's first presidential elections for 29 years could be squat, bearded Lula ending up a prime ministerial Sancho Panza to *spindly President Collor's* sadder and wiser Don Quixote.

Barlow Clowes scandal prompts row over UK colony

By Canute James in Barbados

THE FALLOUT from the Barlow Clowes investment *scandal has prompted the chief* minister of the British colony of Montserrat, in the eastern Caribbean, to travel to London this week in an effort to prevent a change to the island's constitution.

The changes would remove control of the island's offshore banking sector from the locally-elected administration and put it under the control of the British-appointed governor.

Mr John Osbourne, chief minister of the 39-square-mile colony of 12,000 people, is leading a *delegation in the hope of* preventing the constitutional amendments reaching the Privy Council on December 18.

The proposed changes follow investigations earlier this year into Montserrat's offshore banking sector, and the subsequent discovery of irregularities in the registration and operations of the banks.

Following the Barlow Clowes affair, the UK government ordered investigations into offshore banking in British territories. The irregularities were *discovered by officers from* Scotland Yard and from US and Canadian police agencies. The licences of several banks were revoked and six Americans were charged with conspiracy to defraud.

Mr Osbourne has resisted the proposed constitutional changes, claiming that they will give the governor of the colony "wide powers" over the economic, financial and judicial affairs of the island.

"The changes will take Montserrat back 200 years constitutionally," Mr Osbourne said. "I will not stand for it and I will resist it with my life if necessary."

He has received support from the governments of six neighbouring independent islands. At a regional summit, the prime ministers of St Lucia, St Vincent, Grenada, Dominica, Antigua and St Kitts said the proposed constitutional changes "rejected the authority vested in the elected members of the Legislative Council" in Montserrat.

They asked the British government to "reconsider the imposition of the proposed constitution".

The constitutional row has raised questions over the future of Montserrat, and whether Mr Osbourne's administration will seek political independence for the island. The chief minister said a year ago: "Make no bones about it, I am a supporter of independence for Montserrat."

UK NEWS

Toyota to buy electricity direct from PowerGen

By Maurice Samuelson

TOYOTA's European car plant near Derby is to be Britain's first big industrial site to benefit from competition in the post-privatisation electricity industry.

The £700m Midlands plant, due to start production in late 1992, will buy its power directly from PowerGen, the larger of the two generating companies to succeed the Central Electricity Generating Board, rather than as a customer of the local electricity board which has previously enjoyed a monopoly.

The deal is to be announced today by Derbyshire County Council, which was responsible for persuading Toyota to build its plant near Derby. The authorities acted as Toyota's agent in talks over the power contract.

The Toyota plant will be built over the next 2½ years and eventually employ 3,000 people and make 200,000 cars a year for sale throughout Europe.

With its electricity demand expected to reach 40MW the plant could eventually spend about £10m a year on electricity.

The site is typical of the large-scale energy consumers being courted by the successors of the Central Electricity Generating Board – PowerGen and National Power – and by the distribution companies.

National Power has so far appeared more aggressive in its quest for direct sales contracts. It is running a £1m advertising campaign to promote direct sales, has sent draft contracts to more than 500 potential customers and hopes to announce several deals when privatisation officially commences on April 1 1990.

Scope for such business will be limited at first, to cushion the impact on the proceeds of the area boards and to offer a clear field for independent new generating companies.

For the first four years, the big two generators will be able to compete only for contracts for more than 1MW and for the next four years for contracts over 100kW.

They will also be limited to supplying no more than 15 per cent of the demand in any one distribution company's areas in the first four years, and 25 per cent in the second four years, after which limits will be waived.

However, the electricity industry's regulator is expected to come under pressure to to relax these limits from big industrial users seeking the cheapest possible contracts for wholesale supplies of power.

Pearson reorganises senior management

By Raymond Snoddy

PEARSON, the publishing, banking and industrial company which owns the Financial Times yesterday announced a reorganisation of its management and the appointment of Mr Frank Barlow to be managing director and chief operating officer.

Mr Barlow, who has worked for the Pearson group for 22 years, is now chief executive of the Financial Times, where he has presided over a transformation in the profits of the newspaper. When he became chief executive in 1983 the Financial Times made a profit of £1m, although this was influenced by a 10-week strike. This year the paper is expected to make £40m profit.

Mr Barlow said yesterday the reorganisation meant that Lord Blakenham, who remains chairman and chief executive of Pearson, would be able to concentrate more on the future direction of the group while he would concentrate on the day-to-day operations of the divisions.

Mr Barlow will take on his new role, a re-creation of a post held by Mr John Hale from 1983-86, on January 1.

Mr David Palmer, a former news editor and deputy editor of the Financial Times and more recently managing director of St Clement's Press, the paper's printing division, will succeed Mr Barlow as chief executive of the newspaper.

The appointment of Mr Barlow, will be seen as a small but significant change in the direction of the company. In part it reflects the fact that Pearson has been getting larger through acquisitions in the publishing industry.

Mr Barlow is also a grammar school boy from Barrow-in-Furness, north-west England, who qualified as an accountant in a company that has traditionally been run by members of the Pearson family and a generous sprinkling of Old Etonians.

More important, he is a newspaper manager who will be taking over the day-to-day running of a conglomerate whose interests range from merchant banking, fine china and oil services as well as publishing, which has been coming more to centre stage.

Mr Barlow, 59, said yesterday: "I have always always taken the view that I could run an animal feed factory if I had to."

In Brief

Shell chief selected as rail chairman

Mr Bob Reid, chairman and chief executive of Shell UK, is to succeed Sir Robert Reid, his unrelated namesake, as chairman of British Rail, widely regarded as one of the most difficult jobs in the country, writes Kevin Brown.

Mr Cecil Parkinson, Transport Secretary, ended weeks of speculation by announcing that Mr Reid would join the BR board as chairman-designate on January 1.

Mr Reid, 55, is a lifetime oilman who has spent 33 years with Shell. The son of a Scottish butcher, he overcame the loss of his right arm to become a successful golfer, and is regarded as a tough and determined manager.

Mr Reid told the Financial Times he believed it would take a year to get to grips with BR. But he denied that he had been selected as a "tough outsider" who would shake up the railway and prepare it for privatisation.

Ambulance moves

The Association of Professional Ambulance Personnel is set to launch a programme of industrial action, in a sharp turnround of its decision just 24 hours earlier to back the Government's 9 per cent pay offer. The move will scupper government plans to use APAP to break deadlock in the 12-week long ambulance dispute.

Glaxo reassesses

Glaxo, Britain's biggest drugs company, is reassessing plans to build a £500m research centre at Stevenage, Hertfordshire, after estimated costs have mounted steeply. It said the centre would go ahead but construction schedules were being revised.

PMM fees up

Peat Marwick McLintock, accountancy and consultancy group, reported fees of £352m in the year to 30 September, up 24 per cent on the previous year. UK growth came in a year when fees in the international grouping of which it is a part, KPMG, moved ahead by just 10 per cent to $4.3bn.

Guinness case date

The trial of Mr Ernest Saunders, former chief executive of Guinness, and others charged with criminal offences in the Guinness affair has been put back until February 5. The hearing had been due to start on January 8.

Daily Mail action

Journalists at the Daily Mail newspaper have voted for industrial action over the company's plans to end recognition of the National Union of Journalists and bring in a system of individual contracts.

Learning the wider lessons of Lockerbie

Jimmy Burns reviews a report on the prospects of preventing terrorism

The disclosure this week that the Swedish Authorities working closely with Scottish detectives have identified a suspect in the bombing of the Pan Am 747 last December has raised hopes of a breakthough in the investigation into the disaster.

And yet with the first anniversary of the Lockerbie bombing just a fortnight away, the development has brought limited comfort to those who have been drawing wider lessons from the fatal explosion which killed 270 people.

In a paper published yesterday by the independent Research Institute for the Study of Conflict and Terrorism, Professor Paul Wilkinson, widely regarded as an authority on terrorism, argues forcefully that the world's civil aviation security system is so riddled with organisational and technological shortcomings as to make further 'Lockerbies' difficult to prevent without concerted political action.

Professor Wilkinson writes: "The brutal fact is that governments lack the will to set aviation security high on the domestic policy agenda, let alone the agenda of international organisations."

In the aftermath of the Lockerbie disaster, the British and US Governments launched a joint initiative through the International Civil Aviation Organisation's (ICAO) Aviation Security Panel to improve intenational co-operation against airline bombings.

Britain introduced specific measures such as new standards for access to employers at UK airports, screening of all hold luggage on high-risk flights, and closer checking of all electronic equipment taken on board aircraft.

The US for its part focused part of its efforts on research and development to produce effective new security technology capable of detecting plastic explosives. such as the prototype thermal neutron analysis (TNA).

According to Professor Wilkinson notwithstanding these "modest and welcome reforms", it is "clear that the steam appears to be going out of the campaign for improved aviation security."

In recent weeks the demands by relatives of the victims of the Lockerbie disaster into an independent investigation into security at British airports has made little headway with the Government.

Ministers are believed to have argued that such an investigation would not only cut across the current criminal investigation being carried out by the Scottish police but would also risk playing into the hands of terrorists by publicly exposing details on security matters.

In the meantime public debate surrounding the Lockerbie disaster has increasingly been overshadowed by reports of continuing rivalries between intelligence services and the circulation of misinformation by some of those most closely involved in the disaster.

Before this week's development. Scottish police are believed to have complained about the lack of co-operation in West Germany, while the role of other countries in the affair has been made increasingly murky by a succession of unsubstantiated allegations.

Professor Wilkinson's report identifies "effective co-ordination, command and control of all aspects of counter-terrorism policy" as one of the key requirments for an effective international aviation security system.

He also urges a much greater investment in, and distribution of, a combination of high technology equipment of the kind that might have helped avert the Lockerbie disaster, together with enhanced training of security staff.

The TNA machines, which are being researched by the US, are aimed at detecting explosives more accurately by 'bombarding' baggage with low-energy neutrons and idenetifying the characteristic signatutres emited by the nitrogen and hydrogen present in the explosive chemcicals. Other techniques include chemiluminescent sniffing machines based on vapour analysis of the air surrounding passengers.

Within the aviation industry objections have been privately raised to some of these techniqiues both on grounds of costs and practical inconveniece to passengers.

Professor Wilkinson insists, however, that in terms of the extra investment needed, "we are talking about a tiny fraction of the overall manufacturing and operating costs in the aviation industry."

And he questions whether new technology-based multiple checking systems would need to be any more time-consuming and frustrating than current security checks.

On the contrary "the passenger would have the satisfaction of knowing that safety . . . had been greatly enhanced."

The Lessons of Lockerbie. Paul Wilkinson. RISCT, 136 Baker Street. London W1M IFH

Property group in novel reorganisation

Paul Cheeseright, Property Correspondent

BRITISH LAND, the fifth largest UK property group, yesterday announced a corporate reorganisation, unprecedented in the sector, which seeks to provide for its shareholders a means of realising the hidden value of their assets.

It is establishing a new company, New British Land, to take over £339m worth of assets and proposes to sell the rest of its £1.45bn property portfolio, distributing the proceeds to shareholders through dividend and repurchase of their shares.

Immediately British Land shareholders are being offered, as a dividend, 13 shares in the new company for every 40 they hold in the old, and a chance to take part in a tender for the repurchase of 10 per cent of British Land's equity at a price of 420p a share.

British Land has been concerned that its shares, like those of other property investment companies, have been trading at a discount of 40 per cent to their net asset value. The scheme is designed to realise the value of the assets and hence compensate for the poor market performance of the shares. The immediate effect was to lift the British Land share price in heavy trading to 403p, a gain on the day of 46p. But shares in other property investment groups like Land Securities and MEPC were also heavily traded.

Brokers were complimentary about the scheme but had mixed feelings about its effects. Charterhouse Tinley said it was a decent deal for British Land shareholders. Barclays de Zoete Wedd termed it bright and well worked out.

The immediate question from the market was the extent to which the British Land scheme might put pressure on other groups to enlarge their dividend payments through the sale of buildings.

The timing is related to the presence on the market of foreign institutions, mainly Japanese, ready to buy investment properties at low yields.

But British Land has itself been in the market. The documents of its new scheme reveal that it has done a second sale-and-leaseback deal with J. Sainsbury on 11 supermarkets valued by Donaldsons, chartered surveyors, at £88m.

Off with the old: on with the new, Page 26; Lex, Page 18

Judges uphold Irish broadcasting ban

By Raymond Hughes, Law Courts Correspondent

THE GOVERNMENT'S ban on radio and television interviews with members of the Irish Republican Army, Sinn Fein – its political wing – the Ulster Freedom Fighters and other Northern Ireland organisations has been upheld by the Court of Appeal.

Lord Donaldson, the Master of the Rolls, senior member of the judiciary, and two other appeal judges yesterday dismissed a challenge by six broadcasting journalists and a representative of the National Union of Journalists to the High Court's refusal to rule unlawful directives issued last year by Mr Douglas Hurd, then Home Secretary.

The journalists were given leave to appeal to the Law Lords, the highest domestic court of civil appeal. If they lose there, they may take the case to the European Court of Human Rights in Strasbourg, since part of their argument is that the ban breaches Article 10 of the European human rights convention, which guarantees freedom of expression.

The ban prevents the BBC and Independent Broadcasting Authority from broadcasting directly words spoken by people representing specified organisations, or words which support, solicit or invite support for those organisations.

It permits indirect reporting - presenters can read out what has been said by someone whose interview cannot be broadcast.

Lord Donaldson said that perhaps the most startling feature of the ban was how little it restricted the supply of the "oxygen of publicity" to the specified organisations. Because reported speech was allowed, those affected were in no worse a position than if they had access to newspapers with circulations equal to the programmes audiences.

"If the directives are to be criticised at all, it must be on the basis that any use of the power will, or may, damage the reputation of the British broadcasting authorities for total independence from the government of the day and that this price is not worth paying for so small an effect," Lord Donaldson said.

He rejected the journalists' argument that the Home Secretary had acted unreasonably or perversely in issuing the directives.

Stevens team makes number of arrests

By Our Belfast Correspondent

A SUBSTANTIAL number of people were arrested in Northern Ireland yesterday by the Stevens inquiry team which is investigating allegations of links between loyalist paramilitary organisations and elements within the province's security forces.

It is understood a number of members of the Ulster Defence Regiment, were among those detained.

In Belfast a statement released by the Royal Ulster Constabulary said: "A substantial number of people were arrested this morning under the Prevention of Terrorism Act and are assisting the Stevens inquiry team in investigations into serious crime."

Mr John Stevens was appointed by Mr Hugh Annsley, RUC Chief Constable, to head an inquiry into alleged leaks of security documents to loyalist and paramilitary organisations.

● Mr Peter Brooke, Northern Ireland Secretary, said yesterday he detected a willingness among constitutional parties in N Ireland to try to find grounds for political progress.

UK NEWS

Ripples from the BAe whirlpool

Charles Leadbeater looks at the Rover privatisation row

THE political currents that swirl around British Aerospace occasionally produce a whirlpool which threatens to suck in others involved with the company.

Such a whirlpool developed last week when it emerged that the Government had made secret concessions to BAe to guarantee completion of the privatisation last August of Rover, the former state-owned volume car manufacturer.

For most company chairmen, such a revelation would be enough to cope with. But for Professor Roland Smith, BAe's chairman, the Rover controversy is just part of the political fabric that still clothes the company in spite of its privatisation in 1981.

● The Rover affair follows an National Audit Office report on the privatisation of Royal Ordnance, which criticised the Ministry of Defence for significantly understating the value of the land BAe bought. The company has since acquired Arlington Securities to help manage its growing property development portfolio.

● In the increasingly turbulent defence industries BAe's strategy runs straight through the corridors of government before it can reach the market. These issues include the restructuring of the European defence electronics industry, doubts about the financing of a £15bn arms deal in Saudi Arabia and the uncertain outlook for defence spending in the wake of the lifting of the Iron Curtain.

● BAe stresses the development of its civil businesses, which include satellite technology and personal telecommunications. Most significant is its 20 per cent stake in Airbus Industrie, the European aircraft manufacturer.

This is another area where Prof Smith is juggling commerce and politics. BAe wants Airbus to adopt a more commercial approach independent of government. It has set itself against proposals floated by the West German and French Governments to set up a second final assembly line.

Yet it is also keen to squeeze as much as possible support from Whitehall.

In the past few weeks, BAe's approach has been thrown in doubt from within its own ranks. Last month Mr Adam Brown, a BAe employee who was Airbus vice-president in charge of strategy, resigned after criticising the British company's attitude towards the project.

Roland Smith: the Rover controversy is just part of the political fabric that has clothed the company since 1981

He is expected to be followed shortly by Mr Robert Smith, who is not expected to return to BAe after serving only seven months as Airbus's finance director.

If that was not enough, the company is in the midst of strikes at its Kingston and Chester plants which could pitch it into further controversy.

The strikes are threatening to delay components deliveries to its partners in the Airbus programme.

Should BAe concede to the unions' claim for a shorter working week, collective bargaining at other manufacturers would be quickly affected at a time when ministers are becoming increasingly agitated that unit labour costs are rising too fast.

So in virtually every direction, BAe's business takes it into politics. That is the backdrop against which the Rover affair leapt to centre stage.

The affair is the product of two pressures.

First, the Government was determined to dispose of Rover. But it preferred a politically acceptable buyer.

It did not want to sell to another car company, such as Ford or VW, for fear that Rover plants, dealerships and components suppliers would be rationalised.

So, the criteria the Government used for the Rover sale 'fell well short of free-market principles. Political considerations were woven into the deal from the outset.

Second, BAe wanted to diversify away from defence. Strong doubts remain over claims that Rover may teach its parent about mass manufacturing, while BAe can offer research in advanced materials and design.

However, in the short term the acquisition strengthened BAe's balance sheet, making it better able to face restructuring in the European defence industry and facilitating the financing of work in progress on long-term defence projects and the Airbus programme.

But as a letter from Prof Smith to Lord Young of Graffham, then Trade and Industry secretary, during the negotiations makes clear, BAe also had politics in mind.

In the letter, which was leaked this week, Prof Smith said there was growing concern on his board "regarding a number of issues affecting the relationship between the company and the Government both in the civil and military fields." He looked forward to "demonstrable evidence of government responsiveness to that concern" if BAe accepted the terms of the Rover sale.

The affair raises difficult questions for both BAe and the Government.

Sir Leon Brittan, EC commissioner for competition policy, is preparing to extend the Commission's attack on state aid to industry.

Commission officials are examining the NAO report on the sale to see whether the net cash injection into Rover of £422m ($663m) should be reassessed in the light of the company's undervaluation. It is much more likely that he will take action, possibly by the end of the year over at least part of the secret £38m.

If this was added to the Rover sale price, BAe would be presented with a sharp dilemma.

Prof Smith almost scotched the deal just hours before Lord Young was due to announce it. The extra concessions were supposed to have provided the margin which enticed BAe back into the deal.

To remain consistent BAe cannot simply hand over the money. It must argue that the concessions tipped the balance in securing the deal.

Yet it is also unrealistic to suggest that the deal may retrospectively unravel if the £38m has to be paid back. BAe has already gained £126m from selling its stake in Istel, Rover's software house, and part of its stake in DAF, the Dutch commercial vehicle manufacturer.

Surplus sites are yet to be sold, but will be added to by Rover's recent decision to stop car making on the two Cowley sites in Oxford in the early 1990s, a total of more than 80 acres.

Pulling out would jeopardise BAe's links through Rover with Honda, the Japanese car manufacturer.

Negotiations on Honda taking a 20 per cent stake in Rover's vehicle operations and Rover taking a fifth of Honda's manufacturing subsidiary in the UK are close to conclusion.

The credibility of the diversification strategy would also be severely undermined if the Rover deal was scrapped for the sake of a small increase in BAe's debts.

But the dilemma will be political rather than financial. The real questions hanging over BAe are the prospects for healthy profits at Rover and Airbus and the long-term outlook for its defence businesses in a changed internal climate, not a relatively small dent in its balance sheet.

Prof Smith may paddle BAe away from the whirlpool. It is going to be more difficult for the Government to pull to safety.

Taylor Woodrow link for capital's biggest residential scheme by Japanese

Mitsui in London property venture

By Andrew Taylor, Construction Correspondent

MITSUI Construction of Japan is to partner Taylor Woodrow, the UK property and construction group, in one of the largest residential developments to be undertaken in central London.

The development on the site of St Mary Abbots Hospital in Kensington, in London's West End, will have a completed value of at least £135m. It will be far the largest residential scheme to be undertaken by a Japanese developer in the UK.

At least two other Japanese groups and a West German developer, as well as several British groups, sought to partner Taylor Woodrow on the project.

Japanese construction groups such as Kumagai Gumi and Ohbayashi, which this year acquired the Financial Time's former Bracken House headquarters building in the City of London, have become active in the UK commercial property market, but have invested little in residential property.

Mr Naoshi Onizawa, vice president of Mitsui Construction, in London this week, said the joint venture with Taylor Woodrow marked the company's first property investment in Europe. It had previously made investments in the US, Australia, Taiwan and Singapore.

Mr Onizawa said the the outlook for the UK economy had improved during the past decade. Britain provided a stable economic and political platform for Japanese investors. It also provided a natural springboard for Japanese companies seeking to invest in Europe.

The approach of the single market in 1992 would also generate increased business for developers and construction companies in Europe.

Mitsui is forming a separate joint venture with Taylor Woodrow to develop a £16m office building in Gray's Inn Road in central London. It also discussing the possibility of Taylor Woodrow becoming involved in an office development in Tokyo .

The first phase of the Kensington development will provide more than 100 apartments, 8 penthouse flats and 45 houses on just over five acres. Prices are expected to range from £190,000 for a one bedroom apartment to about £2m for a five bedroom house. There will be extensive underground car parking with at least two parking spaces for each house and one for each flat. Profits on the first phase are expected to be around £20m.

Taylor Woodrow and Mitsui have an option to acquire and develop the remaining four acres of the hospital most of which which will be moved to new buildings in Fulham Road. The value of the scheme, if the rest of the site is developed, will be more than £200m.

Central Kensington is one of Europe's most expensive residential markets. Sales in the area have remained strong despite the collapse of other parts of the housing market in London due to high UK interest rates.

Sellafield expects W German spent N-fuel contracts

By David Fishlock, Science Editor

BRITISH Nuclear Fuels expects shortly to sign new contracts worth some hundreds of millions of pounds with the West German electricity industry, for reprocessing spent nuclear fuel at its Sellafield factory in Cumbria, north-west England.

The contracts, to treat German fuel during the first decade of the next century, may be signed before the end of the year, senior company officials predicted yesterday.

BNFL announced orders for another 800 tonnes of reprocessing during the 1990s, won from its existing customers in Japan and Western Europe who are funding its £1.85bn. thermal oxide reprocessing plant (Thorp) at Sellafield.

Mr Christopher Harding, BNFL chairman, said the new reprocessing orders "effectively answer those who claim the market for reprocessing has disappeared".

In a reappraisal of Thorp's design two years ago, BNFL concluded that its capacity would be 700 instead of 600 tonnes a year, and set out to market the extra 1,000 tonnes of capacity over the first decade of Thorp's life, from 1992.

The new German business arises from a decision earlier this year to abandon the planned Wackersdorf reprocessing plant, expected to serve from the late-1990s, and negotiate instead for reprocessing to be done in France and Britain.

BNFL is also in discussions with the US Department of Energy, over the use of Sellafield technology to manage nuclear waste problems in major US Government nuclear facilities.

Mr Harding, just returned from the US, puts the potential market for radioactive clean-up of government installations as high as $10bn.

With three major radioactive waste management facilities totalling over £1bn. investment nearing completion at Sellafield, it is making a confident case in an area where the US has achieved little in 25-30 years.

Mr Harding said he believed BNFL had already solved a lot of the clean-up problems facing the US military nuclear sites.

It has set up a US company, BNFL Inc., to be staffed mainly by Americans, and plans to team up with US companies to offer the US Energy Department its technical experience.

Mr Harding stressed, however, that BNFL was not seeking US reprocessing contracts. He saw no sign of the US Government lifting its ban on reprocessing of civil nuclear fuel.

Reporting BNFL's annual results, he said it had been a good year, with turnover up in real terms, a satisfactory increase in operating profit, and a 26 per cent increase in exports to a record £169m. However, they gave only a modest return on assets of less than 5.5 per cent, he said.

The government's decision not to privatise the nuclear stations had advantages for BNFL, inasmuch as the Magnox stations - of which it operates two - are expected to continue for longer than previously expected to require its fuel services.

Vauxhall model topples Ford from sales league

By Kevin Done, Motor Industry Correspondent

VAUXHALL, the UK subsidiary of General Motors, last month ousted Ford from the top of the list of best selling UK car models for the first time since February 1988.

For the first 11 months of the year three Fords, the Escort, Sierra and Fiesta, have kept their stranglehold, but in November the Vauxhall Cavalier outsold its rivals with sales of 11,744 against 10,456 for the second-placed Ford Escort.

New car registrations dropped last month to 143,323, down 4.07 per cent on November last year, according to figures from the Society of Motor Manufacturers and Traders.

The volume of UK new car sales has now fallen in three of the last five months as the car market weakens under the impact of higher interest rates and the slowdown in UK domestic demand.

Sales for the first 11 months at 2,214,175 were still 4.25 per cent higher than a year ago and are certain to produce a fifth successive record year.

The latest SMMT forecast, however, sees UK new car sales falling next year to 2.1-2.2m.

Imported cars captured 56.49 per cent of the UK market in November and 57.07 per cent in the first 11 months, close to the record imports of the first half of the 1980s.

Vauxhall made the biggest gains last month thanks to the growing success of its Cavalier range launched a year ago. In November it increased its sales volume by 16.1 per cent to 25,229 compared with the 4.1 per cent fall in the overall market. Market share rose to 17.6 per cent from 14.6 per cent a year ago.

This year Vauxhall has ousted Rover for the first time from second place in the UK car market. In the first 11 months it captured 15.2 per cent of the market compared with 13.5 per cent a year ago.

Also, Rover's share has fallen to 13.5 per cent for the first 11 months from close to 15.0 per cent a year ago.

The biggest losers in November were Peugeot of France, which has suffered severe supply problems after industrial action at some of its French assembly plants, and Nissan of Japan, which both suffered falls in market share of more than 2 percentage points compared with a year ago.

Ford, the dominant UK market leader, had a virtually unchanged market share in the first 11 months at 26.4 per cent.

Links to inner-city areas improved by Government

By Hazel Duffy

NINE ministers are being assigned to inner-city areas in an effort to strengthen lines of communication between government and cities, and to co-ordinate government inner city programmes.

The new responsibilities will be in addition to the ministers' existing portfolios. They include Mr David Hunt, Environment minister with responsibility for inner cities, who made the announcement yesterday to Business in the Cities' conference, and Mr Douglas Hogg, Mr John Patten, and Mr Tim Eggar.

The Government plan is expected to appeal particularly to business in the cities, which will be able to go direct to ministers rather than through the civil service hierarchy.

The Government's main concern is to get business more involved in its programmes. That includes companies based in Britain's big cities and developers involved in inner urban areas.

Mr Hunt's plan is a tacit admission that the system of City Action Teams has failed to come to grips with the problem of co-ordination of government programmes. The teams are drawn from civil servants working in the three main departments in the inner cities - Employment, Environment, Trade and Industry.

Thatcher urged to soften stance on Social Charter

By Ralph Atkins

FURTHER pressure on the Government to weaken its opposition to the proposed European Social Charter has come from three sources including a report today by a House of Lords committee.

The latest version of the charter should be used as "a basis for negotiation," the Lord's report says.

It follows a research paper from the Conservative think-tank Bow Group urging the Government to adopt a more positive approach to the charter.

At the same time Conservative members of the European Parliament warned Mrs Margaret Thatcher that she is in danger of playing into the opposition Labour Party's hands.

Lord O'Hagan, on behalf of the 32 Tories in the European Parliament, said: "Mrs Thatcher should sign the charter declaration. It is a legal commitment to nothing. Then the Government can fight its individual proposals point by point when they are produced."

The attacks come as Mrs Margaret Thatcher prepares for the European Council summit in Strasbourg starting tomorrow.

The Social Charter - and Britain's resistance towards it - is expected to be high on the agenda.

The Jobs Columun and Recruitment Advertising will appear on Friday 8th December

The Accountancy column and Appointments advertising will appear on Friday 8th December

MANAGEMENT: Marketing and Advertising

The UK pub trade

Whitbread re-focuses its range

Philip Rawstorne explains the brewer's strategy in the wake of the government's monopolies report

Britain's brewers are preparing for more competitive times with the restructuring of the industry set in train by the Monopolies and Mergers Commission.

As a result of government legislation, over the next three years some 11,000 of the country's pubs will be freed from their ties to individual brewing companies. By 1993, at least 46,000 of Britain's 80,000 pubs will be free houses, able to sell what beers they choose to their customers.

"The pub trade will become like any other retail trade," says Miles Templeman, group marketing director of Whitbread, the UK's fourth largest brewer. "For us, that means the pressure on brands will be greater, service levels to the customers will have to be higher, and sales forces more disciplined."

Whitbread surprised City analysts by electing to stay in the business after the MMC shake-up. Despite its 247-year history as a brewer, the company had been expected to divest its brewing operations to concentrate on its increasingly successful activities as a hotels, restaurants and pubs operator.

Peter Jarvis, group managing director, admits that such a move was considered. But the Government compromise on the MMC report – which means that Whitbread may retain all but 2,120 of its 6,255 pubs – apparently helped to swing the argument against it.

Last month, Whitbread renewed its commitment to its traditional business by putting up for sale its wines and spirits division, worth an estimated £500m; and by paying £50.7m for Boddington's regional brewing operations.

But the company recognised that if it were to compete successfully as a brewer in the post-MMC environment, the business would have to be given a sharper marketing focus.

As the first step towards that end, Whitbread has restructured its management organisation to create a new beer division, which covers the previously separate brewing, marketing and selling activities.

Templeman, who will take over as managing director of the division early next year, says: "There is a big cultural change to drive through the division to give it the necessary focus that puts the customer first."

The aim is to ensure that the marketing principles that have guided the company's approach to the competitive take-home trade in England and Wales will be asserted in dealing with the much larger pub trade.

Whitbread brands are among the market leaders in the take-home trade in England and Wales – and Templeman's sales director comes from that side of the business.

A separate division will handle the process of turning some 2,120 of Whitbread's tenanted pubs into free houses, no longer tied to the brewer, a process that may be complicated by the group's stakes in several regional brewers, which also have tied houses that could be added into Whitbread's total. If it comes to a choice between reducing those stakes or freeing more pubs, the company seems likely to opt for keeping the pub ties.

Whitbread's estate of 1,600 managed pubs will also be run separately, forming another division alongside those which will run the rest of the group's retailing operations: restaurants such as Pizza Hut, Beefeater Steak Houses and TGI Fridays; and hotels and other leisure outlets.

Templeman can thus concentrate on the development of the portfolio of brands with which Whitbread increased its overall share of the UK beer market during the past year to around 13 per cent. "Initially," he says, "that will mainly be a case of marketing and selling what we have even better."

He foresees no radical change in marketing and advertising style. "Stable agency relationships and consistency of style and message are important," he says. Whitbread was a founder-client of its agencies – Lowe Howard-Spink, Bartle Bogle Hegarty and Paragon Communications.

The group raised its spend in consumer marketing by £7m in 1988 and in line with inflation this year. Much of it is being directed to the lager half of the beer market.

The budget for Heineken lager, which it has been producing under licence from the Dutch brewer in the UK for 25 years, was raised to £11m last year and advertising agency, Lowe Howard-Spink, has refreshed the message with a new theme: "Only Heineken Can Do This." Templeman says the very familiarity of the brand was becoming a disadvantage. "It was seen as less exciting than some of the newcomers."

But Heineken holds the number two spot in the total lager market (Carling Black Label is number one in the UK) and is the leader in the take-home trade in England and Wales. "We shall drive it hard," Templeman promises.

With Stella Artois, the Belgian lager, Whitbread has the brand leader, too, in the premium, strong lager sector. Again brewed under a long-established agreement, its annual sales of more than 500,000 barrels are higher than many standard lagers.

Apart from advertising, both Heineken and Stella are supported by sponsorship – a marketing tool that Whitbread first adopted 30 years ago with horse racing to improve its corporate image and has since extended to its brands. Stella Artois has sponsored tennis for 11 years; Heineken has supported ice-hockey for six years.

Whitbread also includes Kaltenberg and Moosehead Canadian lager in its portfolio and is now testing Heineken Export in the south of England.

On the ales side, Whitbread Best Bitter has recently increased share and volume in a declining market. A new arrangement to distribute Marston's Pedigree, and the acquisition of Boddington's, analysts agree, puts the group into a good position to take advantage of the post-MMC rule that all tied houses must stock a "guest" cask-conditioned ale.

Those two brands, together with the recently-launched cask-conditioned Whitbread Best, are buttressed by a range of 15 regional brews – including Flowers in the west and south-west; Fremlin and Wethered in the south-east; Trophy and Castle Eden in the north-east.

Whitbread White Label commands a massive lead in the low-alcohol bitter market; and Murphy's Irish stout, brewed under licence, has shown rapid growth since its introduction in 1988. Murphy's is already sponsoring golf, and the regional advertising with which it was launched will be broadened into a national campaign.

More new products may be added to the portfolio, but support for the current brands in an increasingly competitive climate implies heavier pressure on profit margins from higher marketing costs.

Templeman agrees that it will be vital for his division to maintain the long-term drive that has enabled Whitbread to reduce costs – through rationalisation, reductions in beer losses during processing, and improved training – over the past five years.

Short-term effect of earn-outs

IN RECENT years the marketing services sector has been awash with acquisitions as the publicly quoted marketing companies have bought other businesses; and almost all the acquisitions have involved earn-outs.

Earn-outs are the mechanism whereby one company agrees to buy another for a sum composed of an initial consideration and a performance-related payment – or earn-out – phased over a period of time.

Ostensibly the earn-out looks like an ideal device – especially in a volatile industry like marketing – in that it reduces the risk of one company paying an inflated sum for another. But a new study from Spicer & Oppenheim, the accountants, shows that, although earn-outs are still seen as attractive, they can also depress the performance of newly acquired companies.

One of the main disadvantages is that earn-outs can encourage the vendor of a business to maximise short-term profits – in order to pump up the performance-related payments – sometimes at the expense of long-term growth.

Another disadvantage is that the employees who did not benefit from the sale of the business might feel resentful. There may also be problems when the earn-out period comes to an end and the vendors leave.

Spicer suggests that any company involved with earn-out acquisitions should "manage in advance" – through close monitoring and board representation – and that they should plan ahead for the vendor's departure.

As for the vendors, the study shows that they tend to be in favour of earn-outs, although many were over-optimistic about the amount of money they would receive.

Some vendors cited "loss of control" and "pressure for short-term results" as disadvantages. But the main advantage to them was, not surprisingly, "gain in wealth" – in other words, money.

Earn-out Agreements - Their impact on Marketing Services Companies is available from Spicer & Oppenheim, 13 Bruton Street, London W1A 7AH. £65.

Alice Rawsthorn

Moving the earth for its customers

Caterpillar is taking computer graphics to its dealers. **Nick Garnett** reports

Do you just sell big lumps of machinery or can you also market them?

Caterpillar, the US construction machinery and heavy equipment maker, has brought a new slant to this issue by offering its dealers a sophisticated computer "tool" which is both an aid to efficiency and a slightly gimmicky marketing ploy.

The company is offering its dealers a software package which will help them identify the exact type of equipment a customer wants. This is available in the US to help people make the right choice of Caterpillar engines for on- and off-highway trucks and for boats. It is also being introduced into the UK and the rest of Europe for the sale of generator sets.

The software has been designed at substantial cost to come with extensive colour graphics and "blow up" shots to give customers close-ups of the working parts of the equipment they buy. This has been done to make it more fun for the customer.

"The software makes the job of selecting the right equipment quicker and easier but it is also a marketing tool to attract potential customers into Cat dealer showrooms," says Alan Scott, the 37 year-old computer expert at Cat who designed the system.

"It is a way of getting customers to our dealers so they can see our equipment. It is a way of catching the customers' eye and getting them to look at our technology."

Caterpillar, which claims a 10 per cent share of the European and African generator market, offers diesel engines with 70 different horse power ratings. It has more than 80 different generators ranging from 50 kw to 5250 kw and three variations of radiator.

The kind of generator set required by a hospital, factory, irrigation plant or pumping station is governed by a series of considerations. Will it be a standby unit or one for continuous operation? Will kerosene or diesel fuel be used? At what altitude will it operate?

The vendor also needs to know what load a standby generator has to carry, in other words how many big motors for powering elevators, compressors and so on it will have to start up after a mains power failure.

A production factory might also be sensitive to what is called voltage dip. If the voltage strength coming from a generator falls, say, 12 per cent below normal because of excess load, it could seriously disrupt the operation of electric-powered machine tools, resulting in expensive damage to the metal workpieces they were cutting.

Other constraints include the dimensions of the generator house and the kilowattage of lighting the generator would be expected to provide.

The software package offered to dealers at a cost to them of $650 incorporates a series of questions, the answers to which eventually produce a recommended combination of engine, generator and radiator. This saves a lot of time that would otherwise be spent by engineers at Cat and at the client company having to work laboriously through technical drawings and sheets of figures.

But what is striking about the Cat software is the way it has been overdesigned, giving it some of the characteristics of a computer game to lure potential customers through the doors of Cat dealers.

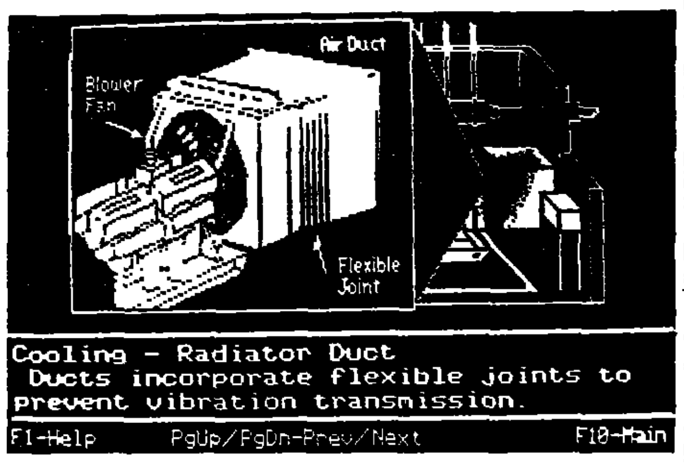
The display, which can be projected onto a big screen, incorporates a form of colour animation where moving components are made to look as if they are actually moving.

Parts of the generator set can be enlarged to see the internal workings of, for example, the exhaust system, ventilation and tortional vibration on the crankshaft.

"The idea here is that the Cat dealer can say 'Hey, this is what your equipment is actually going to look like'," says Scott.

To underline how important the marketing angle is to Cat, the US company is looking at the possibility of using even higher resolution graphics which would make the engine look almost real. "The problem with that is that it would need a lot more hard disk space and involve a lot more cost."

The software allows a Cat dealer to give, within a few minutes, a simple estimate of the type and cost of a generator a customer may require.



The result is printed out on hard copy. But its main function is to produce a longer, detailed breakdown of the preferred solution, together with a detailed price quotation.

It also offers a 10 year-investment analysis of each engine and covers things like fuel overheads and labour, service, and spare part costs.

Because there are usually no more than two Cat dealers per country outside North America, the software and the IBM equipment it is used on can be transported to customers' own sites.

The software is in English but from next year Cat dealers will be able to translate the question and answer menus into their own national languages.

LEGAL NOTICES

No. 007388 of 1989
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF
ERA GROUP PLC
AND
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 21st November 1989 presented to Her Majesty's High Court of Justice for the confirmation of the cancellation of the Share Premium Account of the above-named company as at the 21st day of November 1989.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Honourable Mr. Justice Harman at the Royal Courts of Justice, Strand, London, WC2A 2LL on Monday 18th day of December 1989.

ANY creditor or shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said cancellation of the Share Premium Account of the Company should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned solicitors on payment of the regulated charge for the same.

Dated this 7th day of December 1989.

Wilde Sapte
Queensbridge House
60 Upper Thames Street
London EC4V 3BD

Solicitors for the above-mentioned Company.

COMPANY NOTICES

GENERAL MOTORS CORPORATION

NOTICE IS HEREBY GIVEN that resulting from the corporation's declaration of a dividend of $0.75 (gross) per share of the common stock of the corporation payable on the 9th December 1989 there will become due in respect of the bearer depositary receipts a gross distribution of 3.75 cents per unit. The depositary will give further notice of the sterling equivalent of the net distribution per unit payable on and after the 15th December 1989.

All claims must be accompanied by a completed claim form and USA tax declaration obtainable from the depositary. Claimants other than UK banks and members of the stock exchange must lodge their bearer depositary receipts for marking. Postal claims cannot be accepted. The corporations's third quarter report for 1989 will be available upon application to the depositary named below.

Barclays Bank PLC
Stock Exchange Services Department
54 Lombard Street London EC3P 3AH

Quebec Central Railway Company Capital Stock

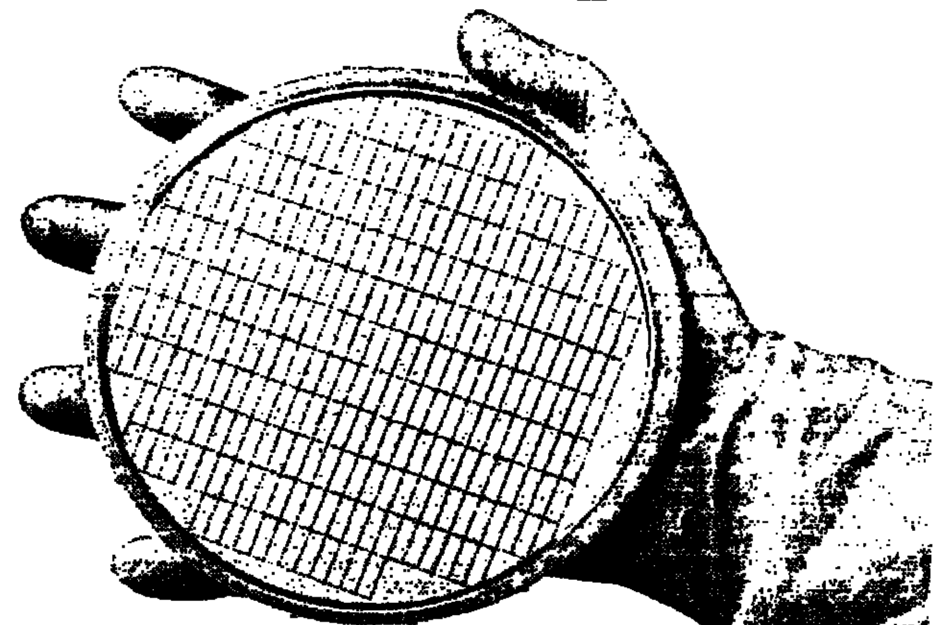
In preparation for the payment of the half yearly dividend due January 15 1990 on the above stock, the transfer books will be closed at 3.30 p.m. on December 22 1989 and will be re-opened on January 2, 1990.

D. R. Kaast
Assistant Secretary
62-65 Trafalgar Square
London WC2N 5DY
November 30 1989

THE POWER OF BELIEF: #1 in a series

When you aim for perfection, you discover it's a moving target.

Every advance in quality raises new expectations. The company that is satisfied with its progress will soon find its customers are not. It is this belief that has spurred Motorola to a 100-fold improvement in quality since 1981. ■ Our formula is a simple one: First, we banish complacency. Second, we set heroic goals that compel new thinking. Finally, we "raise the bar" as we near each goal, and set it out of reach all over again. ■ Today, Motorola's standard is Six Sigma quality, and we aim for only 3.4 defects per million pieces in all we do by 1992. Such standards are naturally appreciated by Rolls-Royce, the arch perfectionists, who have chosen us as their sole supplier of car phones. ■ Total customer satisfaction, our goal, is now on the horizon. We dare not rest in its pursuit.



For 20 years, we have been making semiconductors in East Kilbride. Today defects, once measured in parts per thousand, are now measured in parts per million. Our goal is Six Sigma quality.

Motorola were one of the first to be awarded Ford Europe's prestigious Q1 preferred quality award for our ESC2 ignition timing component.

Building On Beliefs

MOTOROLA

TECHNOLOGY

David Fishlock reports on Pilkington's invention of an advanced integrated circuit

Glass breaks into chip market

Pilkington, the international glassmaking group, is developing a silicon chip that it believes is advanced enough to be exploited worldwide. Plessey, the UK electronics group, has already taken a licence but Pilkington hopes to sign up big Japanese chipmakers.

The integrated circuit design, called the dynamically programmable logic device (DPLD), is the invention of Kenneth Austin, an integrated circuit designer. He believes the circuit could become an international semiconductor standard.

The chip carries up to 10,000 integrated circuits, any of which can be reprogrammed while the chip is working. It can be used to call upon circuits as they are required or to repair them by substituting untapped circuits for any which develop a fault.

The speed with which this can be done means DPLD's 10,000 circuits are equivalent to 10 times that of current circuit design. The reconfiguration can be arranged at long range, to "self-heal" a fault in a spacecraft, for example.

According to Austin, the DPLD combines the power and speed of the application-specific integrated circuit (ASIC) with the capability of the microprocessor. Self-healing is a bonus. Moreover, it is based on well-established silicon chip technology. "I conceived the device out of frustration with existing ASICs," he says.

Austin and Pilkington came together in 1986 through Rainford Venture Capital, the group's venture fund. They set up a small research company called Pilkington Micro-electronics Ltd (PMeL), 80 per cent owned by Pilkington and 15 per cent by Austin.

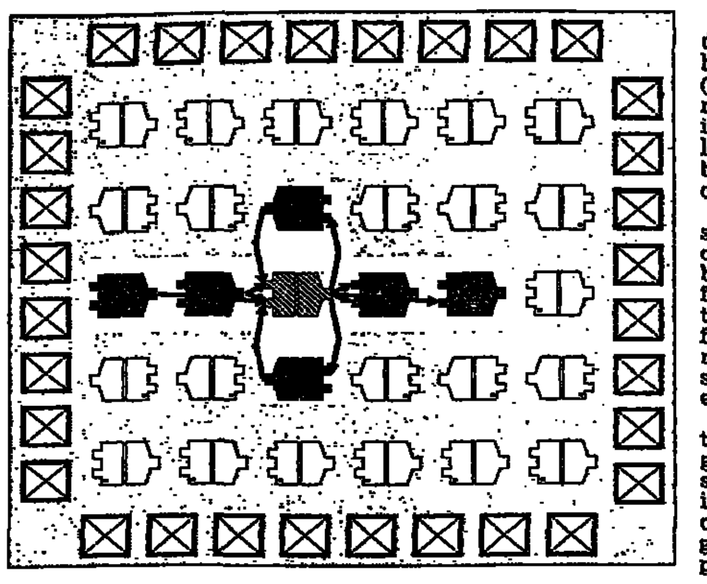
PMeL's patent claims a configurable semiconductor integrated circuit which has a unique local connection system. Each "gate" connects directly to a small number of other gates, each in a separate set (see diagram). Each connection can be dynamically changed to bring in new functions or to bypass faults.

Austin had previous links with the group through earlier inventions in encryption, using ASICs. "I think Pilkington recognised that Austin is a real inventor and operates best in this kind of environment," says Sir Robin Nicholson, the group's technical director and chairman of PMeL.

PMeL has been set up specifically to promote DPLD. Pilkington has three roles in relation to the company, says Sir Robin. It provides finance as well as experience in both exploiting and licencing technology.

The group rejected the idea of manufacturing DPLD chips itself, or of selling outright to the highest bidder. It believed that it could earn more by licencing to perhaps six silicon foundries worldwide. The big silicon foundries want new chip designs, Sir Robin says. The chosen course is expected to require development funds in the "low millions" compared with perhaps £100m to launch Pilkington into chipmaking.

PMeL consulted Douglas Stevenson, managing director of Software Sciences, Thorn-EMI's software division, on the likely reception of DPLD by the electronics industry. Stevenson approves of the licencing route, although he can think of no other British company that has tried to break into semiconductors in this way.



DPLD local connection system Source: PMeL

Plessey, the first licensee of DPLD, calls it an electrically programmable array (ERA), for which it sees two different uses. One stems from the high circuit packing density inherent in its design. The other is as a design tool to speed particularly the design of small batches of circuits. Plessey plans to market the ERA next February.

Sir Robin Nicholson says he is not forecasting another float glass, which has notched up more than £400m in royalties over the last 20 years. "We are looking for £5m-£10m a year when the market matures," which he believes will be in the late-1990s.

DPLD is by no means Pilkington's only foray into micro-electronics. Earlier this year it fused two advanced-technology activities – coated glasses and information technology – to create Pilkington Micronics. It specialises in data storage and display, and manipulates sheet glass with a precision previously unknown in the industry.

Launched with a £6m corporate investment in a manufacturing unit at Shotton, Cheshire, its mission is "to become a major supplier of high added-value, glass-related products to the electronics industry," says Ken Hughes, general manager.

For storing large amounts of data long-term (archives), it has developed a glass Worm (write once read many times) memory disc capable of retaining the equivalent of 1,500 Yellow Page books. The next will be four times as big, Hughes claims.

Glass has the advantage of stability, says Julian Barnes, commercial director. Barnes believes the explosive growth for coated glasses in information technology will come in flat displays, from 4m square metres a year today to 100m square metres a year by the end of the century.

Neither architecture nor transport offers this kind of growth prospect for glass, he says. It could amount to a £1bn industry worldwide by the end of the century. Pilkington's target is to become the dominant player outside of Japan.

Both data storage and display products depend on cutting and shaping glass with unprecedented precision – in the case of discs, to a few microns for both inside and outside diameters. The product must also be polished flat and free from surface defects. The latest Japanese "supertwist" liquid crystal displays, for example, need pairs of glass plates set precisely five microns apart.

Value is added when the information processing structure – coating, texture and shape – is applied to glass. Lawrence Greasely, technical director, likens it to silicon semiconductor technology on a large scale. "The trend is bigger and bigger pieces of glass, smaller and smaller structures." The constant challenge is getting a good yield.

Bifocal lenses find sophisticated contacts

DEVELOPMENTS in contact lens technologies mean bifocal-wearers will soon have the option of wearing contacts.

Ordinary contact lenses and spectacle lenses use only refractive optics to bring light to focus. Using diffraction – where light is spread around the edge of an object or opening – as well as refraction, which bends light, a bifocal effect is created. When light passes through two or more openings or by two edges, diffraction can combine light waves to produce an intensity pattern, called constructive interference. Diffraction brings an image to focus at two points and does not produce confusion in a person's vision.

The 3M corporation in the US has produced a multifocal intraocular (within the eye) lens, based on diffractive and refractive optics, that can be fitted in the eye after cataract surgery has removed the natural lens. Conventional intraocular lenses use refractive optics to focus light.

The lens is also intended for people who are near and/or far sighted. The intraocular lens has been designed to mimic the natural eye's ability to accommodate for different object distances. It minimises the chance of a person needing bifocals or spectacles after cataract surgery, according to 3M. The lenses have been fitted to a limited number of patients. 3M is waiting for approval from the US Food and Drug Administration before making the lens widely available.

Allergan Optical, part of the US Allergan corporation, recently launched a soft bifocal contact lens based on diffractive and refractive optics, which it claims is the first soft diffractive bifocal contact lens in the world. Pilkington of the UK developed a hard bifocal lens based on diffractive optics about two years ago.

The diffraction, as in the multifocus 3M intraocular lens, is achieved by a series of tiny concentric rings, a few microns in diameter. The Allergan Optical lens is a cast moulded design, while the 3M lens is precision machined to within a few wavelengths of light.

Lynton McLain

Price packages at a lower cost

MOST electronic information on share, bond or foreign exchange prices changes can be received in two ways: either as soon as the changes occur, using an expensive on-line service; or once a day, after the markets have closed.

For those who cannot afford the former, but find the latter inadequate, Reuters, the news and financial information company, has packaged its prices service so that companies can receive the specific information they need at the times they need it.

Aimed primarily at portfolio managers, unit trust departments and those in charge of pension funds, the Snapshot service updates clients' portfolios at pre-determined times – hourly, daily or weekly.

The prices, from the world's big markets, are held on the Reuter host computer and sent from there across the company's data network to subscribers' personal computers.

The data can then be used to update existing portfolio or spreadsheet software packages. Charges depend on the type of information requested and the frequency.

Servers share the computer work

SUN Microsystems, the Californian workstation manufacturer, is continuing its foray into the networked workstation market with two mid-range computers, or servers.

The two servers are intended for use by companies who want to link their workstations together and so share files, printers, disk drives and other peripherals. Although Sun announced a family of computer servers earlier this year, yesterday it revealed the 490, its largest and most powerful machine, and the Server 1, its smallest.

The former can have up to 32 Gigabytes of disk capacity – which could hold more than 5bn words of text. The latter, by comparison, is aimed at companies that want to join together between just two and five workstations.

Bedsores get discharged

A HOSPITAL bed which prevents patients developing bed sores has recently been announced by the Ahlstrom Group, of Helsinki, and Eurapak's Consumer Products, writes Michael Swiss.

The bed evenly distributes the patient's weight by using a multi-layered system of air pockets, rather than the traditional mattress. This technique supports the body evenly and prevents any interruption in blood circulation – the cause of bedsores. The scale of the problem is demonstrated by statistics from the US, where around $5m (£3m) is spent annually treating bedsores.

The air-pocket system is likely to prove less expensive than existing techniques, which involve computer-controlled motorised bed systems costing up to $50,000 each.

Computers join forces for 1992

GEARING up to take advantage of the single European market in 1992 are seven computer hardware, service and repair companies which have formed a federation in order to service their customers throughout Europe.

The dual aims of the European Federation of Computer-Technology (EFC) are to give the individual companies greater clout in purchasing and to give their customers with offices throughout Europe the choice of going to just one organisation. Between them the companies do everything from selling laptop computers to repairing disk drives.

The seven companies are Altra of West Germany, EAF of the Netherlands and Belgium, EPS Elettronica in Italy, Blacker of Switzerland, Newtron of the UK and Material Management in Ireland.

Mozart is finally in the money

MOZART, one of Austria's most famous sons, is contributing to the country's technologies as well as its arts.

An iridescent stamp-sized representation of Mozart's head is being used by the Austrian National Bank on its latest bank note in an attempt to prevent fraud. As the note is tilted, Mozart's head moves from left to right.

The device, known as a Kinegram and developed by Landis & Gyr in Switzerland, resembles a hologram. But whereas a hologram is a laser photograph of a three-dimensional object, the Kinegram uses a computer-generated design, etched into a medium such as metal foil.

The width, depth and angle at which the lines of the picture are engraved give the changes in the picture as it is tilted in the light.

The foil Kinegrams are stamped on to the documents so that they cannot be removed with being destroyed. If they are photocopied they will produce a blurred image, unlike holograms where a static picture can be successfully copied.

The big advantage of the Kinegram is that it can be printed on paper as well as on plastic, and could be used on driving licences or passports as well as bank cards.

The disadvantage is that it is an expensive technology. The Austrian National Bank is only using it on its 5,000 schilling banknote – worth approximately £250.

WORTH WATCHING

Edited by Della Bradshaw

Apples keep the smoke at bay

IF your New Year's resolution is to give up smoking, the answer could be an apple-flavoured delicacy now on sale in Switzerland.

The Switch, from Aroma Switch of Zurich, looks just like an ordinary cigarette, but contains no tobacco or nicotine and is smokeless. Instead, it contains granules which taste and smell like apples. Aroma Switch say this has a soothing effect.

The other main difference between this and the traditional cigarette is that the Switch must not be lit.

Contacts: Reuters: London 250 1122. Sun Microsystems: US, 415 960 1300. Ahlstrom: Finland, 0 16231. EFC: UK: 0482 870036. Landis & Gyr: Switzerland, 42 24 11 24. Aroma Switch: Switzerland 13 91 40 44.

BUSINESS LAW

Regulation rules too detailed

By Paul Nelson

THE AMENDMENTS to the Financial Services Act (FSA) aimed at simplifying the investor protection regime have become law in the 1989 Companies Act. *Unfortunately*, they are based on the misconception that every contingency can be provided for. Like "de-regulation" and "self-regulation in a statutory framework," "simplification" may be illusory.

Certainly the rulebooks need to be simplified. They are too long, too complicated and expensive to comply with. As a result, they do not protect effectively the private investor.

The reasons for this failure *go to the heart of the FSA*. The scope of the activities to be regulated was too wide and resulted in a Securities and Investments Board (SIB) rulebook dealing with every conceivable circumstance. The situation was made worse by the confusion in the legislation between market regulation and consumer protection and compounded by problems of putting it all into practice.

Having put together an extremely detailed rulebook, the SIB interpreted strictly the requirement in the FSA for the rulebooks of the self-regulating organisations (SROs) to be "equivalent." Some also argued *that*, because of the right of action for investors under section 62, firms must have their duties set out in laborious detail.

The rulebooks often regulate the same subject matter in different ways, leading to "regulatory *arbitrage*." They need to be harmonised to achieve consistency. The structure of a SIB and five SROs (leaving aside nine recognised professional bodies) does not naturally tend towards consistency.

Simplification and consistency cannot be wholly reconciled given the structure of so-called self-regulation. However, the proposed changes to the FSA, as amplified by the SIB's August paper setting out *its preliminary views, attempt* a reconciliation.

The statutory system has not been radically overhauled (for example, to meet the European Directives) along institutional rather than functional lines to separate banking, insurance and investment services. Instead, the Government's amendments graft on further complexities.

The SIB will lay down 10 general "principles" of conduct. These will apply directly to all authorised firms. The SIB will also set out 50 or more *core rules, directly applicable* to SRO members. The SROs will then make sub-rules which amplify, restrict, qualify and interpret the core rules. The SIB has the power to publish codes of practice which would *also qualify the core rules*.

The SROs' rulebook will not be judged by its line-by-line "equivalence" to the SIB's massive rulebook. Rather, it must achieve "adequate" over-all investor protection. This will be judged on the investment business, the investors and the controls to which SRO members are subject.

Investors are not intended to be able to sue for breach of the principles, only of the rules. Even then, only private investors will have a right of action under section 62.

The principles are expressed very generally. For example, a firm should "observe high standards of integrity and fair dealing." The principles are not intended to give rise to a legal right of action, but only disciplinary sanctions, which may be instigated by investors. However, principles as standards for the whole industry having been laid down, it is possible that failure to comply with them may be proof of negligence or proof of failure to comply with an implied contractual term. This is worrying given the obscure drafting of some of the principles and their generality.

The SIB's proposed core rules suffer in a similar way. The principles and core rules alone would not generally be sufficient for an SRO to demon*strate "adequacy."* Several are unworkable without sub-rules. Some – such as the criteria for the contents of investment advertisements – expressly require compliance with detailed sub-rules.

From other core rules, exemptions are required – for example, in cases in which the firm is dealing with business and professional investors. Most require amplification and qualification to be intelligible.

The Investment Management Regulatory Organisation (Imro) has stated that it does not agree with several core rules and there are indications that other SROs are not at one with the SIB on their content.

None the less, each word of each core rule will be directly applicable to the SROs' members. The SRO's rules give the core rule followed by "interpretations," "extensions," "derogations" and "notes." This indicates a drafting technique – with a possible consequent parallel lack of clarity – similar to that used for the rules of the Securities Association.

The Government has included a provision that, in framing its rules, the SROs should have regard to the costs of compliance. But this provision does not enable an SRO to omit a rule needed for "adequate" investor protection merely because compliance is too expensive. It only enables the SRO to implement the rules in a less costly fashion.

The SIB also appears to have failed to give the SROs detailed guidance on what parts of the current rulebooks could be omitted.

The core rules are merely the existing SIB rulebook expressed more generally. It would be open to an SRO to simply re-hash the whole of its current rulebook. This is what Imro proposes in a draft rulebook published in November.

A real and committed simplification would not recast each current rule as a sub-rule. The correct approach would be to cross out all rules which merely restate the existing common law or other statutory duties, and then implement a good number of others as codes of practice or guidance. A breach of such a code of practice or guidance would not be directly actionable under the amended FSA, though it could be treated as evidence of non-compliance with a principle or rule.

Most of the remaining rules should then not be applied to dealings with business and professional investors who could be expected to look after themselves.

General but accurate drafting of both core and sub-rules would simplify both. Indeed, the clear drafting of the core rules would probably make unnecessary many of the sub-rules.

Of course, since there are legal remedies for breach of a rule it must be properly drafted. But it is an error to think that this requires detailed rules.

The debate comes back to personalities. Are the regulators and the regulated committed to a radical simplification? It has been said that firms prefer detailed rulebooks because they know exactly what they have to comply with and, once they have done so, can forget about the matter.

This attitude is based on a fallacy. The draftsman of any legal rule does not contemplate an infinite number of situations. The more detail there is, the more difficult it becomes to determine what to do. Clear, accurate and general drafting is the answer.

But that presupposes a clear and accurate purpose in regulation. It is possible, though unlikely, that every rule, sub-rule, paragraph, sub-paragraph and sentence in the existing SIB rulebook is aimed at a potential mischief which must be regulated.

The SIB must enunciate what really *needs* to be regulated and then provide the leadership to see the work carried out. Everything else should be jettisoned. This may require a sweeping change of attitude. Alternatively, recent press comment would suggest that an SEC-type SIB may be emerging.

The *Financial* Intermediaries Managers and Brokers Regulatory Association (Fimbra) and the Life Assurance and Unit Trust Regulatory Organisation (Lautro) seem likely to stick with their existing rulebooks. The Securities Association has not yet published its own.

Imro views all this as no more than a drafting exercise to recast its existing rulebook. Its new draft is more logically ordered and in a more appropriate format. It attempts to solve some existing problems and ambiguities – solutions which can be achieved, however, under the existing provisions of the FSA.

When the so-called "new settlement" is implemented, every authorised firm will have to review its compliance procedures in detail. It will not be worthwhile without substantial changes, particularly if it *all has to be done again* two years later when the European directives are implemented.

The author is a partner in Linklaters & Paines.

ARTS

CINEMA

Poet of balmy incidentals

MYSTERY TRAIN
Jim Jarmusch

COMIC BOOK CONFIDENTIAL
Ron Mann

DRUGSTORE COWBOY
Gus Van Sant

EAT A BOWL OF TEA
Wayne Wang

CAT CHASER
Abel Ferrara

"I feel a bit discombobulated" says the Italian lady registering at a hotel in Memphis, Tennessee. "Yes," says the black receptionist, "I know the feeling."

We all do, after an hour of watching Jim Jarmusch's *Mystery Train*. As Henry James would say: Nothing, beautifully, happens. Telling three related tales for the price of one, *Mystery Train* is a sort of one-man *New York Stories* gone south and gone scatty.

Majestic in their plotlessness, Jarmusch's films (*Strangers In Paradise*, *Down By Law*) feature drifters and oddballs intersecting in pixilated backwaters of the US. If you called these movies shaggy dog stories, the shaggy dog union would sue for slander. *Mystery Train*, like its Jarmusch forebears, is picaresquely minimalist even by their standards. In part one a young Japanese couple, fresh off the train, drift across Memphis practising pidgin English and meeting weird locals. In part two, a widowed Italian lady is "discombobulated" by life, Memphis and the ghost of Elvis Presley. And in part three, a gang of fugitive crooks hole up in the hotel which lodges all three sets of characters.

Check your pulse at frequent intervals: make sure you are still alive. So much narrative becalmment can be dangerous.

But given time it can also steal over you. Jarmusch at best is a poet of balmy incidentals and the "drip-drip" of daily life. Best episode here is the first, where a forlorn clownishness is wondrously captured by actors Youki Kudoh and Masatoshi Nagase, as they raise inconsequence to the level of high karma. A quarrel over the merits of Memphis and Yokohama train stations; a bleakly dotty conducted tour of the famed Sun Recording Studio ("Please form yourselves into a row" says the guide to the barely half-a-dozen visitors); much Beckettian non-sequitur and mimetic bricolage (especially with an acrobatic cigarette lighter); and a beautifully gnomic coda in the hotel.

Here the girl asks the boy why he never smiles. "I'm very happy" he says, unsmiling; "That's just the way my face is." The same with deadpan Jarmusch: it's just the way his films are. If you love those parts of your life in which "nothing" happens, you will enjoy squeezing the drops of concealed consequence from *Mystery Train*. Set in a town whose antique, exotic name belies its pop-culture Americanism, the film's secret message is surely the elusiveness of that modern Holy Grail, the "American dream." But do not expect revelation to be brought to you. You must seek it out yourself. If that sounds too much like hard work, skip the mystery train and wait for the express.

*

In other parts of America today, the streets are full of people born in cartoon frames and talking in "speech balloons." They feature in Ron Mann's spiffing documentary *Comic Book Confidential*. Mann rounds up the necessary suspects – comic-strip artists like Robert Crumb ("Fritz the Cat"), Jack Kirby ("Captain America") and Art Spiegelmann ("Maus") – and quizzes them on their art. A fizzing tour through popular (deservedly popular) American culture.

Nigel Andrews

The gang of addicts in *Drugstore Cowboy* don't simply steal money to support their habits; instead they cut out the middle man and remove the drugs, from hospitals and pharmacies, themselves. Their ingenious methods of distracting attention while they purloin the goodies provide the lighter moments of a bleak and uncompromising film in which the group of four, led by Bob (Matt Dillon) accept their addiction, and regard their raids as their work.

Beautifully shot, with the occasional tricksy extreme close up – a room scene from inside a light bulb, the texture of a note pad under the pressure of a pen – the sombre, documentary style under lines the mood of the plot; honest, and unapologetic. The characters are objectively shown, shooting up or discussing a raid – not misunderstood, not romantic, but not complete villains either, just human beings given to go on running and stealing to feed their addiction. Their constant flight requires as much effort as the will Bob finally discovers to give up drugs. His decision turns his love story with his wife, Dianne, into a triangle, with drugs as the irresistible rival, winning her from him.

The performances are remarkable, especially the often underrated Matt Dillon, Kelly Lynch as Dianne, and William Burroughs as a defrocked, addicted priest who predicts, in 1971, the way in which future governments will use public fear of drugs as a political weapon. And director Gus Van Sant has gambled and won with his decision to concentrate on reality at the expense of neat, fictional answers. The film's determination to be honest could have been its downfall but, though there is an initial, deceptive sense of detachment created by his treatment, its impact, insidious and not to be forgotten, grows after the story ends.

Human nature of a gentler kind informs Wayne Wang's *Eat a Bowl of Tea*. When relaxed immigration laws allow Chinese women to enter postwar America, newly married Ben Loy and Mei Oi (Russell Wong and Cora Miao) are a novelty in an ageing male community. The interfering old men create so much pressure for them to produce a baby that Ben Loy's resulting impotence defeats their purpose. This is no laughing matter for the couple, but one achieves a light, charming social comedy without undermining the delicacy of their problems.

'Dangerous Cowboy:' Matt Dillon and Kelly Lynch

The heroine of *Cat Chaser* is rich, she wears expensive clothes. But her chic blonde hair is ostentatiously dark at the scalp. Is this a comment on her character, or does Kelly McGillis have a careless hairdresser? May be getting to the root of the significance of her roots would highlight the point of Cat Chaser too. Instead, the characters in this thriller are so poorly established that even the voice over narration, introduced to fill in the gaps in plot and motivation, is ineffective.

The story, based on an Elmore Leonard novel, does offer some promisingly James M. Cain touches. There is Moran, woodenly played by Peter Weller, trying to run his Miami motel and resist temptation; some mysterious criminals who need his help; Mary, the seductive, trapped woman; and her rich, corrupt, South American husband, De Boya. As Mary follows Moran on a rather arbitrary trip to South America the narrator helpfully explains that though they have been giving each other the glad eye for years, this is their first consummation. "Are you going to hold me or that beer?" she asks breathlessly, and they grapple on the bed, giving the audience time to ponder all those Cain biggies. Mary wants a divorce but De Boya is refusing to give her the amount named in their prenuptial agreement, "only $2m," she mourns. And not even a single indemnity.

A few years ago Lawrence Kasdam borrowed a similar scene in *Body Heat*, and made it pay off with enormous success. *Cat Chaser* borrows without paying back, introduces the elements without following them through adequately. Its title refers to a nickname given to American soldiers in South America. Of course, a cat chaser, like this film, can also be a dog.

Ann Totterdell

Coriolanus

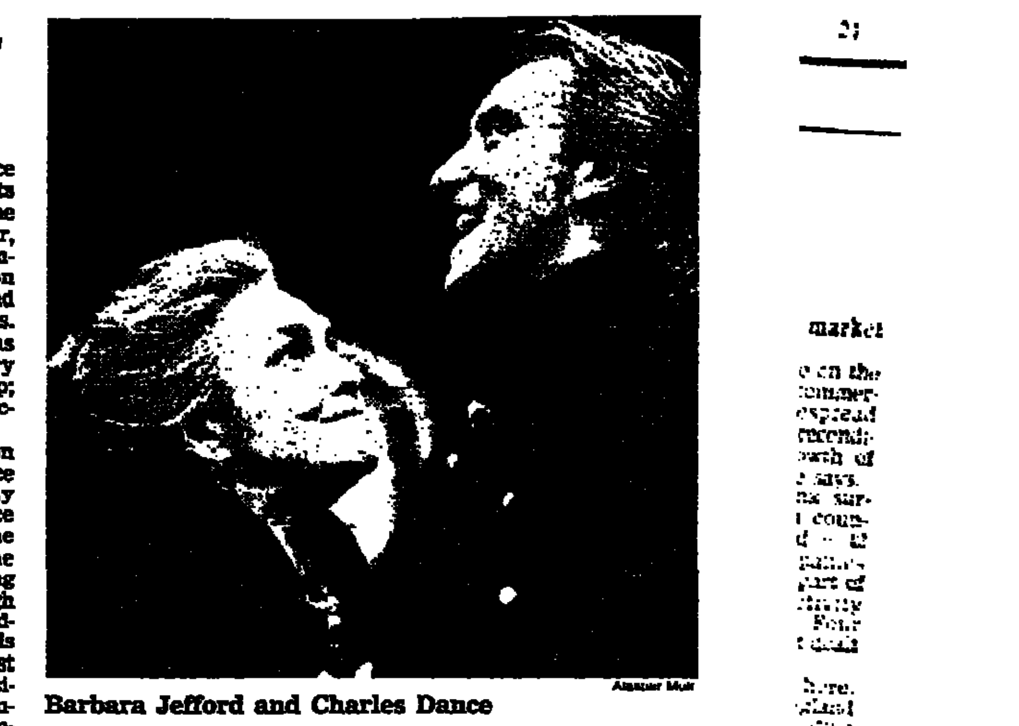
ROYAL SHAKESPEARE THEATRE, STRATFORD

Even with the acceptable face of mob democracy baring its teeth in Eastern Europe at the end of this astonishing year, the Royal Shakespeare Company at Stratford-upon-Avon cannot make *Coriolanus* sound like a play that really matters. This we must interpret as another indictment of Terry Hands's artistic directorship; still no news of who might succeed him next year.

The revival that opened on Tuesday, with Charles Dance returning to the company apparently under sufferance and certainly not for the money (as he informed the Daily Mail, therefore qualifying immediately as nasty enough for the role he once understudied here), is directed by Hands "with John Barton." One must assume that Hands is responsible for the hieratic, cold neutrality of Rome and the contrasting soft red Arabic mustiness of Antium; while Barton has taken care of the difficult and knotty verse.

In the middle, the soul of a play goes missing. In a just about decent evening, the combination works reasonably well without defining any future prospects for the company or indeed eclipsing memories of Barton's own wooden primitivist spectacle of 20 years ago with Ian Richardson as a golden-headed golden voice, or Hands's black leather apotheosis ten years later with Alan Howard as a self-obsessed solo turn, his best role. Dance was a glinting Aufidius (and understudy) on that occasion.

He still glints, with those blue eyes, that swishing ginger mane and Bensonian profile. And he has the lungs. But his performance is a series of demonstrative tableaux, not an account of the journey of a contemptuous political soul in the wilderness of public disapproval. The spur is vanity, whether he appears bloodily in ghostly half-light, sabre flashing in the sun or "Make you a sword of me;" or peddling patently false rhetoric in the "for your voices" speech; or hurling a table across the forum on "you common cry of curs," ripping off the white senatorial tunic and departing in a huff to the world elsewhere, the political opposition.



Barbara Jefford and Charles Dance

The interpretation is pitched on one note of obtuse disgust, which makes it easier for the peerless Barbara Jefford to undermine his ascendency as the beseeching Volumnia at the gates of Rome. Miss Jefford heads a formidable triumvirate, her ferocious termagant well supported by Amanda Harris's broken Virgilia and Jane Maud's haughtily religious Valeria. But what really catches the RSC out here is the awfulness of the rhubarbing crowd, its phoney choreography, terrible bit part playing and predictable reactions.

The tribunes are made nothing of by Joe Melia and Geoffrey Freshwater, who walk up and down a bit and tremble in their shoes. Apart from Miss Jefford, the major contribution is made by Malcolm Storry as Aufidius, a skinhead killer whose twists and turns of conscience are for once more interesting than those of Coriolanus. And Joseph O'Conor is a wonderful, if unsurprising, Menenius. The box-like design of Christopher Morley contains three meaningless towers, one of them mobile and covered in bronze reliefs.

Modern interpretation has imposed a homo-erotic symbiosis on the warring protagonists (as with Ian McKellen and Greg Hicks in the Peter Hall National Theatre version), but none of that here. The clash of titans is without a hint of recognition or embrace, and the play is weaker as a result.

The final family pleas are conducted in a high-tech canopied arena. Dance clinging to Jefford for 20 seconds before cracking, another reaction based in neither psychology nor temperament. He is stuck like a pig in the back by Aufidius's knife, after a brief and public torment, and carried from the stage face and gleaming torso open to the skies.

One feels that rehearsal time has gone into that, rather than any discussion on how the play relates to the artists and their audience.

Michael Coveney

OBITUARY

John Pritchard

John Pritchard, who has died in San Francisco at the age of 68, was one of the leading figures in British musical life of the postwar period: perhaps Britain's most widely travelled conductor, certainly, in the last two decades, one of its busiest.

He made his mark in almost every branch of musical life. Though first brought to public attention as an operatic conductor at Glyndebourne – which for three decades remained his artistic home – Pritchard was a familiar figure on the concert podium, whether as chief conductor of the Royal Liverpool Philharmonic (1957-63), the London Philharmonic (1962-66), or the BBC Symphony (1979-88). While it may not be true to say that he bestrode the British musical scene as did, in their different ways, a Beecham or a Boult, his astonishing natural musicianship, versatility, and willingness to tackle a wide repertory, from Monteverdi to Stockhausen and taking in an enormous number of first performances, kept him in the forefront of this country's musical activities throughout his career.

Pritchard, the son of a professional violinist, had his first success as conductor of the Derby String Orchestra (1943-45). After the war he joined Glyndebourne as a repetiteur, soon becoming chorus master and eventually assistant to Fritz Busch – it was as a result of the senior conductor's sudden indisposition during a 1949 festival performance that he made his conducting debut there. In the final stages of his Glyndebourne association he was musical counsellor (1963-68) and musical director (1969-78); Pritchard's reputation as one of the world's leading conductors of Mozart opera was intimately bound up with his experience of and in the Glyndebourne theatre, and came to a climax in the Mozart productions – *Figaro* (1972) and *Don Giovanni* (1977) – on which he collaborated with Peter Hall.

But his peculiar gifts in Rossini and the Italian bel canto composers, which may have been developed under the tutelage of another great Glyndebourne figure, Vittorio Gui, were no less remarkable; in recent years it was via Bellini (a new production of *Norma*, 1987) and Donizetti (revival of *Lucia*, 1988) that Pritchard maintained links with Covent Garden, a theatre in which he had regularly appeared since 1952, and where he had taken charge of the premières of Britten's *Gloriana* and Tippett's *Midsummer Marriage* and *King Priam*. His vast experience in the field of opera gained him chief conductorships in the theatres of Cologne, Brussels, and San Francisco.

Pritchard was a conductor admired by orchestral musicians everywhere. He was a famous "quick study," who could solve difficulties of scoring and balance with an insider's understanding; likewise, his sympathetic approach to instrumentalists and singers (he was much depended-on by sopranos from Jurinac and Callas to Cotrubas and Te Kanawa) lent him particular renown as an accompanist. In spite of all this, it was not invariably the case that a Pritchard performance would be characterized by energy – a certain indolence of manner could make itself felt, and vitiate the intelligence and fluency of his music-making.

But no-one who had the good fortune to hear him on an "on" night is likely to forget the experience: the present writer has particularly happy memories of outstandingly fresh, buoyant, and gracefully phrased readings of *Così fan tutte*, *Figaro*, and Strauss's *Capriccio* and *Intermezzo* at Glyndebourne, of Bellini's *Capuleti* at the Proms, and of Chaikovsky symphonies (the earlier ones) at the Festival Hall. Pritchard was a cultivated man, a bon viveur, and a genial conversationalist, with a fine line in blending humour and indiscretion. He was made a CBE in 1962, and knighted in 1983.

Max Loppert

Don Carlo

ROYAL NORTHERN COLLEGE, MANCHESTER

Wagner and The Trojans apart, this Grand opera can provide no more formidable challenge to student performers than Verdi's *Don Carlo*. Yet the Royal Northern College production is an almost unqualified triumph, bristling with conviction and vivid commitment from first to last; indeed one's main complaint is that it is *Don Carlo* rather than *Don Carlos*, sung in Italian (the 1886 Modena edition) rather than the original French, a choice that will win scant approval among colleagues on this page.

Ole Schmidt conducts, Stefan Janski directs and Richard Marks furnishes thoroughly naturalistic, often majestic sets; the costumes have been borrowed from Covent Garden's Visconti production of blessed memory, right down to Eboli's eye-patch. Everything looks and feels right, and in articulating such a vast time-span (over five hours including intervals) Janski has concentrated sensibly on essentials, adding no frills though mustering ample detail when required; the auto da fe teems with life, filling the stage to overflowing but never losing a focus, while no chance is lost to underscore the shifting loyalties of the opera, in a glance or a gesture.

In that he is reinforced by his principal singers, who have clearly worked at these roles until they have been absorbed into their very bones. On the first night on Tuesday Peter Rouse singing Carlo was suffering from laryngitis; he struggled through one and a half acts then surrendered, walking through the remainder of the opera while his lines were sung from the pit by a young ex-RNCM professional Colin McKerracher. That inevitably diminished some of the ensemble work, but the vividness of the surrounding performances scarcely allowed the tension to slacken: a marvellously contained, mature Rodrigo from David Ellis, a voice still to gain some depth and character but absolutely assured on stage, thrilling, extravagant Eboli from Sara Fulgoni and intense, moving Elisabetta from Edith Pritchard, whose singing showed a remarkable control of line and phrasing.

That trio, as well as the King of Pavlo Hunka and Grand Inquisitor of Andrew Slater, kept the core of the opera tight and always involving. The chorus, from the very opening of the Fontainebleau scene onwards, sang with great passion; the opening of the auto da fe was positively hurled at the audience. The orchestral playing did not falter, and Schmidt's knack of etching in woodwind detail brought constantly shifting perspective to the score, even if there were moments when a little more recklessness, and less diffidence about ramming home dramatic points would have been useful. A glorious evening then; there are further performances from Saturday onwards, if any tickets are to be had.

Andrew Clements

Welsh National Opera

DOMINION THEATRE

Since 1979 the Amoco-sponsored visits to London of Welsh National Opera have been regular and highly valued. For much of the past decade, this has been the British company likely to divine and pursue the new directions in opera, to provide stimulation and surprise in greatest quantity; and even now, when WNO appear to be going through a relatively lean period of artistic achievement, a week of performances at the Dominion was still something to be looked forward to.

The London schedule is made up of recent, well-spoken-of revivals of *Lucia* and *Bartered Bride*, along with the new *Freischütz* production, which on Tuesday filled the opening slot. One hopes the WNO showings of Donizetti and Smetana will do something to disperse the gloom caused by their Weber, since André Engel's staging of the Great German Romantic Opera seems to me a complete turkey – the charm, seriousness, charged atmosphere, and urgency of the original have been thrown out, and absolutely nothing (other than an unhelpful New England setting) has been put in its place.

This is a closely worked, finely integrated study in total negativity on the lyric stage: a set that means nothing, a libretto plodded through, a string of intelligent and responsive performers left to their own devices on the stage. Whatever the purpose of the production, its actuality is an even level of tedium that must have saddened anyone in Tuesday's audience who knows and loves the work.

This was in spite of knowledgeable conducting by Peter Hirsch – not exciting, perhaps, but well balanced and musicianly – and notably fine singing from Rita Cullis (Agathe) and the American tenor Joseph Evans (Max). The unfocussed tone of Phillip Joll as Kaspar raised another yet question-mark over the vocal condition of this enormously talented young singer. An evening best forgotten.

Max Loppert

ARTS GUIDE

December 1-7

EXHIBITIONS

London

The Hayward Gallery. The Other Story – an intriguing but uneven survey of the work in Britain since the war of artists drawn from cultures other than that of the western European tradition. Daily until February 4, except bank holidays.

Whitechapel Gallery. Michael Craig-Martin – a retrospective of the sculptures, reliefs and wall-drawings of one of Britain's leading conceptual artists, unfailingly elegant in the demonstration, though the informing ideas are more often of obvious and banal than profound. Daily until January 7 except Mondays and Bank Holidays.

The Barbican. A Golden Age – Art and Society in Hugary, 1896-1914: in the light of the current ferment in Eastern Europe, with Hungary very much in the van, it is salutary to be reminded just how active a participant she was in the European cultural commonwealth. Daily until January 14 except December 24 and 25.

Paris

Musée des Arts Decoratifs. Je suis le Cahier - Picasso's sketchbooks. After two years of meandering the world over, the exhibition ends, aptly, in Paris. The 40 sketchbooks covering a period of 64 years follow closely Picasso's development. 107, Rue de Rivoli (42603214), closed Tue. Ends Dec 31.

Grand Palais. Archaeology in France. The exhibition presents 30 years of discoveries with some 3,000 objects, beginning with the inevitable skulls and flint tools and ending with finds from the Louvre foundations. Closed Tue. Late-closing night Wed. Ends Dec 31 (42895410).

Musée des Arts Decoratifs. Bohemian glass 1400-1989. Some 200 exhibits, among them the famous ruby-coloured glass, show how – having freed themselves from Venetian influence – the glass-makers of Bohemia carried the art of cutting and engraving and painting. 107, rue de Rivoli (42603214). Closed Tue, ends Jan 28.

The Louvre. Arabesques et Jardins de Paradis. The beauty and richness of nature is a leitmotiv which runs through Islamic art from Spain to India, from the 8th to the 18th Century. Closed Tue, ends Jan 15 (40205317).

Galerie d'Art Saint Honore. Lucretia. Setting off the white androse-coloured body against a deep black background, Lucas Cranach the elder dares to paint at the beginning of the 16th century in Luther's town a disturbingly beautiful Lucretia. 267, rue Saint Honoré (42601503). Closed Sat, Sun and lunchtimes. Ends Dec 15.

Brussels

Europalia Japan 89:
Musées Royaux d'Art et d'Histoire. Nambam Art explores the Portuguese influence on Japanese painting and the Splendour of No Theatre shows props and costumes from the Rokuro Umewaka Collection. Closed Mon. Ends Dec 17.

Antwerp

Hessenhuis. 53 Falconrui. Japanese posters by 12 graphic designers. Closed Monday, ends Dec 17.

Madrid

Fundacion Juan March. Retrospective of Edward Hopper opens the autumn season at the foundation. 61 works by the New York realist covering a period of 56 years. Until Jan 4.

Barcelona

Caixa de Barcelona. Raoul Dufy. Works by the French fauvist,well known for his lively use of colour and interest in variedforms of art, are on show in Spain for the first time. Ends Dec 15.

Hanover

Sprengel Museum, Kurt-Schwitters-Platz. Der blaue Reiter (The Blue Horse). this museum is displaying around 61 pieces from its own collections as well as some additional paintings on loan from East Germany and by other artists who belonged to the same Munich-based group. Until Feb 11.

Cologne

Museum Ludwig, Bischofsgartenstrasse 1. The most comprehensive retrospective on Andy Warhol, who died in 1987, with around 160 pieces from New York.

Munich

Städtische Galerie im Lehmbachhaus. The most complete retrospective of the expressionist painter Karl Schmidt-Rottluff to date with almost 370 works from 70 private and public collections.

Vienna

Museum for Applied Arts is hosting a large exhibition devoted to the works of Carlo Scarpa, the Italian artist and architect. The theme is focusing on "The Other City". Until Jan 15.

New York

Metropolitan Museum. A decade of fabulous shows borrowed from around the world culminates in the present exhibit of the major works of Velazquez, much of which is borrowed from the Prado in Madrid. Ends Jan 7.

Washington

National Gallery. Almost three dozen paintings of the early 20th century German movements, Bauhaus, Neue Sachlichkeit and Blaue Reiter, lent by the Thyssen-Bornemisza collection, make a telling commentary on a part of the world again at the centre of attention internationally. Ends Jan 14.

Tokyo

Idemitsu Museum. Flowers of Edo. Paintings and prints of flowers from the Edo Period represent a new flowering in Japanese art, influenced both by new trends in the decorative arts of China and by the botanical illustrations of Europe.

Odakyu Gallery (Odakyu Department Store) Shinjuku. Kiyumizu Temple Exhibition. The temple, founded in 778, is one of the most popular in Kyoto and has a superb collection of Buddhist images and paintings. Ends Dec 10.

SALEROOM

'Blue Page' makes £1.1m

Not all the big art collectors around 1900 were rich Americans. Joseph Robinson (he was later knighted) was a South African diamond millionaire who bought Dudley House in Park Lane in the 1890's and started to fill the vast picture gallery with choice Old Masters. He tried to sell them in 1923 but on the night before the auction fell in love with them again, raised the reserves, and kept most.

They are now being sold by his descendants and a group of nine went for £14,767,500 at Sotheby's yesterday. The most famous was probably Gainsborough's "The Blue Page," one of three famous paintings of boys in cavalier costume in the style of Van Dyck – the others are the "Blue Boy" and the "Pink Boy." It sold yesterday for £1.1m, slightly below forecast, perhaps because there are doubts as to whether the background was completed.

There were no doubts about the top lots, two Florentine panels painted in 1487 to celebrate the union by marriage of two great banking families – those of Tornabuoni and Albizzi. They were destined to hang in the bridal chamber. One showing the Argonauts in Colchis is credited to Bartolomeo di Giovanni and sold for £5.06m, double its estimate. The other, the departure of the Argonauts, attributed to "The Master of 1487" made £4.62m, comfortably above forecast. Both are in superb condition.

A Murillo, "The vision of St Francis of Paola" was within estimate at £1.485m, while Agnew paid £924,000 for "An elegant couple in an interior" by the 17th century Dutch artist Eglon ven der Neer and another London dealer, Noortman, £770,000 for "A calm sea" by an artist of the same place and period, Jan van Cappelle. Outside of the Robinson pictures, a still life of flowers by Jan Brueghel the Younger sold for £1.012m as against a top estimate of just £180,000.

At Christie's silver made £915,013 with 13 per cent unsold and medieval manuscripts £980,056, with 4 per cent unsold. Brand Ingles, the London dealer, paid £143,000 for a George IV silver gilt mounted lapis lazuli cup and cover. It was originally estimated at £1,500 but then it was noticed that the handles formed the crest of William Beckford, which accounts for the rise in price. Christie's had sold it at the Hamilton Palace sale in 1882 for £782 10s.

Among the manuscripts a New York dealer gave £308,000 for a Book of Hours with many miniatures, produced in Bruges around 1500.

Antony Thorncroft

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NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 01-873 3000 Telex: 922186 Fax: 01-407 5700

Thursday December 7 1989

The building of Europe

THE MEETING of the European Council this weekend has been described by President François Mitterrand as "a turning-point for our Community's future." That is perhaps an exaggeration. The Community is a large vessel and turns slowly: this will be merely one point on a broad curve in its course.

What is true is that Europe as a whole is at a turning point, thanks to the rash of democratic revolutions sweeping across its eastern half. Most people in the Community agree with President Bush that these events call for "a continued, perhaps even intensified, effort of the Twelve to integrate," but there is disagreement between those who believe the intensified effort should take the form of moving faster on the EC's existing agenda, including economic and monetary union (Emu) and the Social Charter, and those who argue that the urgency of those particular items has diminished.

Misguided declaration

The Social Charter, a well-intentioned but misguided declaration of principles, will be adopted in Strasbourg with Britain's strongly registered dissent but probably without much further discussion. More important, but now virtually certain, will be the decision to call an inter-governmental conference, starting probably a year from now, to "lay down the subsequent stages" for achieving Emu, following the launch of stage one on July 1 (as agreed by the Madrid summit last June) – it being understood that these subsequent stages will require a new treaty. Britain will vote against this decision, but will take part in the conference, as it did in the previous one which drew up the Single European Act. The important question to be settled in Strasbourg is how the mandate for the conference should be defined. Emu will be at the head of the agenda, but there is a strong case for including other matters too.

Emu as conceived by the Delors Report requires a treaty because it will involve setting up at least one new Community institution (a European central bank) and transferring new powers from member states to the Community. As Mr Delors said last week, this extension of EC powers will "pose two problems: that of the effectiveness of its executive (and which executive?) and that of democratic control, taking account of the coexistence of national parliaments with the European Parliament."

In fact these two problems are posed already, and one could well argue that a treaty would be needed to deal with them even if Emu were not on the agenda. The first problem, that of the executive, is highlighted by the crisis in eastern Europe, where the EC is called on to react decisively to a fast-moving series of events – in fact to behave like the major power it is and to conduct an appropriate foreign policy. Its role was recognised by the Group of Seven summit in July which entrusted the Commission with the task of co-ordinating aid to Poland and Hungary from the West as a whole. Yet the Commission probably has fewer qualified staff available for such a task than any one of the 24 national governments involved. Moreover a lot of confusion and time-wasting is caused by the ragged division of responsibilities between the EC as such and the Political Co-operation machinery, and within the EC between the Commission, the Council of Ministers and the presidency, with the latter shifting from one national government to another every six months.

Constructive suggestions for overcoming these problems – some requiring treaty revision while others could be adopted straight away – were made in a paper presented in Brussels last week by Mr Henri Froment-Meurice, a former French ambassador to Bonn, and Mr Peter Ludlow, director of the Centre for European Policy Studies. If the British Government wishes to prove that its hostility to the Social Charter and the Delors Report does *not* reflect any lack of enthusiasm for European political integration, it could submit these ideas to the summit.

Cession of powers

The second problem is the "democratic deficit" – the loss of effective popular sovereignty resulting from the cession of powers by directly elected national parliaments to a Community whose legislative body is the Council of Ministers, and whose executive is an appointed Commission. The case for correcting this deficit is already strong, and a further transfer of powers will make it overwhelming. That means strengthening the powers of the European Parliament, but could also mean, as Mr Delors hinted, greater involvement of national parliaments, perhaps through the creation of a second chamber.

A third problem, not directly related to Emu, is the "subsidiarity" principle, meaning that the Community should only concern itself with matters which, because of their cross-frontier implications, cannot be left to national discretion. Frequently cited by Mr Delors but far from consistently applied, this principle is in urgent need of codification.

An inter-governmental conference will be well worth having if it addresses all those problems and so endows the Community with a set of institutions enabling it to deal effectively with the problems of the 1990s.

Strong case for embryo research

TODAY BRITAIN'S House of Lords holds the first debate on a controversial measure, the Human Fertilisation and Embryology Bill. Peers and MPs will have a free choice between two alternative clauses: one bans all human embryo research; the other allows experiments to take place on embryos up to 14 days after conception, under the control of a statutory licensing authority.

People on both sides of the argument agree that legislation is long overdue. Ever since the 1984 Warnock Report, doctors and scientists working with embryos have wanted the protection of a clear legal framework to carry out what they see as important medical research. Their opponents believe that human life is sacred and that it begins at the moment of conception; therefore any embryo experiment is immoral, whatever the future benefits for humanity.

The scientific and medical professions are almost unanimously in favour of controlled embryo research, not because they are disrespectful of life but because there are good scientific arguments not to regard embryos up to 14 days old as miniature human beings. The majority of embryos fail to implant in the womb and therefore die naturally before reaching the 14-day stage. The embryo at that stage is still a microscopic group of undifferentiated cells; it is not yet clear which cells are going to grow into the brain, limbs or guts and which will become the placenta *linking the foetus to the* womb.

Once those arguments are accepted, it is hard to reject the scientific methods which have recently become available to do embryo research. The promised benefits include: improved *in vitro* fertilisation (IVF) techniques; diagnosis of serious genetic defects in embryos before implantation; better treatment of infertility; new ways of preventing miscarriages; and development of safer and more effective contraceptives.

In the absence of legislation, all embryo research has been controlled by a voluntary licensing authority jointly sponsored by the Medical Research Council and the Royal College of Obstetricians and Gynaecologists. The authority, chaired by Dame Mary Donaldson, has worked valiantly to inspect Britain's 38 IVF and embryo research centres and ensure that they follow the appropriate ethical and medical guidelines. It would be a good model for the new statutory body.

Parliament should decide on embryo research on its own merits and resist the efforts of pro-life MPs to amend the bill to reduce the present 28-week limit on abortion. There is a good case for fixing a new limit of 24 weeks but the Government should achieve that by introducing separate legislation. The medical and ethical arguments about abortion in late pregnancy are quite different from those surrounding the treatment of embryos a few days old.

If parliament disregards the scientific evidence and votes on a wave of pro-life emotion to ban human embryo experiments, many researchers will be tempted to move abroad. *Today the House of Lords has* the opportunity to set a suitably dispassionate tone for the debate, before the bill reaches the more emotive atmosphere of the Commons.

ECONOMIC VIEWPOINT

A win for Germany

By Samuel Brittan

Changes in the world's currency stakes have been spectacular in the last few months. The worry that existed as recently as September about an over-strong dollar has disappeared. The Bundesbank's desire for a recovery in the D-Mark has been more than fulfilled; but the weakest currency of the top three has been the Japanese yen.

Although the dollar is well and truly off the boil, it is by no means as weak as a comparison with the D-Mark alone would suggest. The US currency is comfortably within the shadowy Group of Seven ranges, which still lead a half-existence. The D-Mark is, however, the star performer, having recovered all the ground lost in the last two years.

The trade-weighted indices confirm that the yen has fallen even more than the dollar. The yen index has fallen by nearly 15 per cent since the peak of last winter and has lost all the ground gained since the autumn of 1987. The dollar index, by contrast, is still up on two years ago. But in view of the brisk running down of the Japanese trade surplus, other Group of Seven members are unlikely to object to yen depreciation, so far at least.

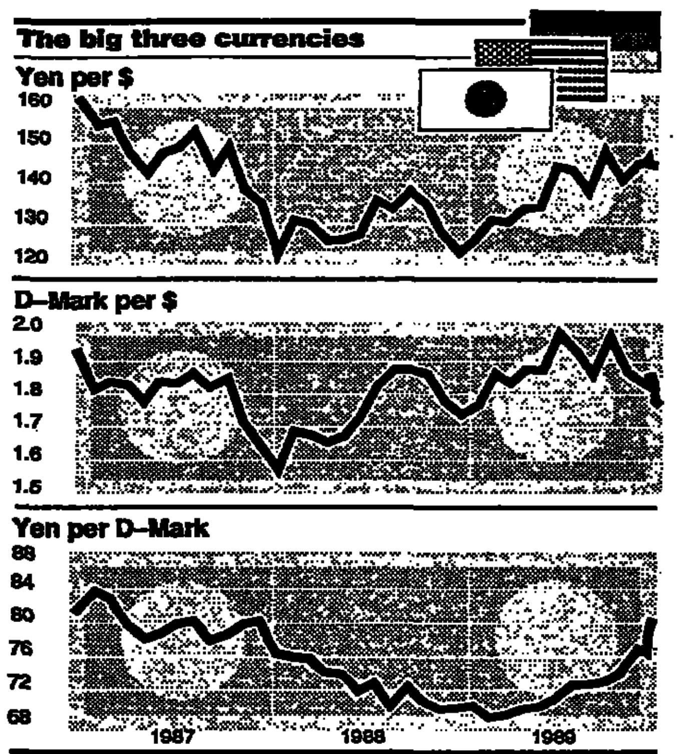
In the short term, the most important influence on currency movements may indeed be the relative tightness of monetary policy. In the long term, comparative movements in purchasing power for internationally traded products – and perhaps for capital assets too – are what really count. More fleetingly, in the medium term, the current balance of payments can be important, especially if it is the focus of media obsession.

The climb in the D-Mark is partly explained by the rise in German interest rates. But German interest rate increases – past and prospective – are themselves symptomatic of *something much more basic.* And interest rate explanations do not fully account for the decline of the yen.

One ingenious theory, emanating from David Hale of Kemper Financial Services, attributes the yen's decline to a desired Japanese capital outflow exceeding the country's savings surplus. Because Japanese internal capital markets inflate asset values, while discouraging takeover bids, Japanese investors are increasingly looking abroad. As a result, the US current deficit can now easily be financed without chasing *hot money by means of high* interest rate differentials. But Hale is worried that the yen's depreciation will continue until it threatens US competitiveness and thus relations between the two countries.

Sterling hardly comes into top league discussion. If it did, it would come last. For after a fairly stable performance for several years it has been deteriorating alarmingly in recent months and weeks. In 1986, 1988 and for most of 1989 its trade-weighted index averaged around 92 (there was an upward lurch to 95½ in 1987). But it is now nearly seven per cent below the 92 benchmark; and forward rates and interest differentials suggest a similar fall in the year to come.

The British Treasury has lost no time in taking advantage of Nigel Lawson's departure to disclaim any special



interest in sterling's rate against the D-Mark. But this will not wash. For currencies linked to the D-Mark, either via *the European Monetary System* or more informally, account for nearly 60 per cent of the trade-weighted average.

The fact that the UK should have combined a severe tightening of monetary policy during the last year, relative to other countries, with a nasty downward lurch in sterling is a severe thumbs-down signal from the international markets. It may well reflect the longer-term inflation prospect and not just the balance of payments red ink.

The syndrome of expected depreciation, high inflation *and high nominal interest* rates is unlikely to be reversed by any mechanistic monetary or fiscal gestures, but will need a clear signal that the Government has been forced to take the exchange rate seriously.

German monetary policy should adjust to the D-Mark becoming standard throughout Germany

If we turn from sterling to the star-performing D-Mark, we need to go beyond rising German interest rates to a phenomenon which has been aptly labelled, the Economics of German Reintegration, in a new paper by Credit Suisse First Boston.

The word reintegration covers at least two different processes. First, there is the migration of East Germans, and ethnic Germans from further afield, into the Federal *Republic. These inflows are* expected to reach nearly 700,000, or well over one per cent of the existing population, in 1989. Second, the accelerated growth of the East German economy will occur as a result of injections of West German capital and management, irrespective of the exact political relationship between the two parts of the country. Popular German pressures are, however, moving ineluctably towards reunification, whether the foreign policy establishments of the world like it or not.

The CSFB authors avoid the politics. Their point is that, although the balance between immigration to the west and accelerated growth in the eastern parts of Germany is difficult to predict and is likely to fluctuate, the two are partial substitutes for each other. It is, therefore, possible to say something about their combined effects.

They suggest that the elimination of the discrepancy between output per head in the two parts of Germany, will require an increase of 1 percentage point per annum in the combined growth rates of the two parts of the country. About half of this extra growth might occur in the west, under the stimulus of immigration, and about half in the east.

The immediate effect might be to raise the 1990 growth rate in the Federal Republic to 4 per cent, compared to 2½ per cent expected only a few months ago. The CSFB authors suggest, moreover, that demand will rise more than potential supply. For the new immigrants will consume more than they earn and extra investment will be required to provide them with industrial and social capital. Because much of the extra demand will be concentrated on housing and land, only limited relief can come from running down the balance-of-payments surplus.

Thus, even if the Bundesbank raises both its estimates of potential real growth and its money supply targets, the Lombard rate will still have to rise from 8 per cent to at least 9 per cent and probably more next year. A more fundamental point, which hardly anyone has yet discussed, is how German monetary policy should adjust to the prospect of the D-Mark becoming the *de facto* means of payment and standard of value throughout Germany.

The arrival of a flexible and mobile labour force is likely *over a longer period* to wear down union influence and weaken corporative nationwide collective bargaining in the Federal Republic – just as Hong Kong immigrants would in the UK if any British Government were wise enough to open the doors. The net effect in West Germany will be to increase the growth rate and lower the unemployment rate compatible with low and stable inflation.

Such effects should be beneficial to other Community countries. To suggest that the prospective increases in nominal *German interest rate* changes to justify an EMS realignment concedes far too much to short-term thinking. Moreover, to the extent that the German outlook has become more inflationary, a firm rate against the D-Mark becomes more rather than less important for other countries.

The French Finance Minister, Mr Pierre Bérégovoy, has insisted that there should be no franc depreciation against the D-Mark. Shearson Lehmann has produced a compromise realignment grid in which there is no change in the franc *parity, but France is neverthe*less forced to concede a 2¼ per cent upward realignment to Germany and the Netherlands and small downward changes for the other members. The resulting changes are so small as not to require changes in existing market rates; and they do not affect the picture of average changes in the franc/D-Mark parity of less than 2 per cent per annum since 1983. The question arises why such minuscule changes are worth making at all.

A monetary union requires the replacement of exchange rate changes by movements of capital and labour, or changes in their relative prices. When the new forces in Germany are tending to produce just this extra mobility it would be perverse to throw a spanner into the monetary union process by a non-essential realignment.

BOOK REVIEW

The ultimate Texan

THE LONE STAR. The life of John Connally
James Reston jr
Harper and Row $25

"I SHOULD have spent more time with that boy. His problem is he likes those oak-panelled rooms too much," Lyndon Johnson said of his old protégé and then fellow Democrat, John Connally, when he joined the Nixon administration as Treasury Secretary in December 1970. A decade later when Connally's own ambitions to become President *had* collapsed in expensive failure – an outlay of over $11m for just one convention delegate – he remarked: "I reminded everybody of Lyndon."

The saga of John Connally is not only a dramatic story in itself, as James Reston Jr vividly records, but it also highlights the links between money and politics which are the lungs, if not the heart, of American politics.

John Connally may, as he himself recognised, have suffered in the end from being seen as Lyndon's boy, but the two men were very different. Johnson, for all his ruthlessness and ambition, retained a concern for the poor and less well-off. But Connally lacked compassion. He was always the voice of the well-off – the favourite of corporate America, and the recipient of its contributions during his 1979-80 presidential bid.

Much more than Johnson, Connally was, and is, the ultimate Texan – the expression of that state's optimism, its restlessness, its willingness to gamble and cut corners, its vanity and even vulgarity. That has produced an unrivalled tradition of powerful politicians, from Speaker Sam Rayburn, via Johnson and Connally, John Tower, current Senators Lloyd Bentsen and Phil Gramm, former House Speaker Jim Wright, three current House committee chairmen, to even that atypical, adopted Texan, George Bush.

But the state's free-wheeling approach has led to recurrent scandals. This year alone, John Tower's nomination as Defence Secretary was defeated, in part, as a result of his close (though entirely legal) links with defence contractors, while Jim Wright was forced to resign as Speaker of the House of Representatives following his intervention with regulators over financially troubled savings and loan institutions.

Connally sailed close to the wind several times in his career, notably when he was accused of receiving $10,000 from the milk industry following his intervention in a crucial price decision when Treasury Secretary. After a celebrated trial, which featured evangelist Billy Graham as a character witness, Connally was acquitted in 1975.

But the reputation of being a wheeler-dealer stuck. As Reston notes, in the late 1970s after his acquittal Connally could have motored along before a final push for the presidency, but "his gambler's love for the still bigger deal, took him back out on to the precipice. The presidency was a major goal of his life, but not the only goal." He wanted money as well as power. He went into business with Arab oil interests and this identification undermined his campaign.

Switching party did not help. Conservative Republicans viewed him as an unprincipled fixer, willing to support government intervention in business, as over the Lockheed rescue in 1971. Outside Texas he had little popular appeal.

Yet Connally was in many ways well qualified to be President – and twice very nearly became Vice President during the 1970s. He had a formidable political record – as aide to Lyndon Johnson; as Navy Secretary during the Kennedy administration; as an energetic, if conservative, Governor of Texas; and as a memorable, if controversial, Treasury Secretary.

Reston records the dramas of 1971-72 when Connally – aided by his then under-secretary Paul Volcker – played a central role in the end of the Bretton Woods fixed exchange rate system and the devaluation of the dollar. Many, of course, see these decisions as the root of subsequent problems, but his actions then turned him into a potential President, especially in the eyes of that shrewd observer, Richard Nixon.

Connally had energy, intellect, vision and charm – all attributes of leadership. He was also a heroic figure, gaining stature both from his naval service in the Pacific War and from November 22 1963. In Dallas that day, travelling in the same car as President Kennedy, he also was shot and was lucky to survive. (Reston puts forward a plausible, though naturally unprovable, case that assassin Lee Harvey Oswald's real grievance was against Connally, who was his main target.)

For all Connally's flaws, it is a tragic story, ending in January 1988 in a sale in Houston of his personal possessions after a final, speculative property binge led to bankruptcy.

There is an irresistible comparison between Connally in his earlier years and James Baker, the current Secretary of State. They have in common the roles of Texas corporate lawyers, decisive Treasury Secretaries, friends of Presidents and political dealmakers. Yet, while Baker has none of the *doubtful associations of Connally*, he has similarly yet to develop a popular, national appeal that will allow him to succeed his friend and mentor George Bush in the White House.

Peter Riddell

The Scans get together

■ One development that is proceeding almost as quickly as German reunification is the consolidation of the Scandinavian banking sector. Six big mergers have been announced this autumn, the latest expected to be unveiled today in Sweden between PKbanken and Nordbanken.

Suddenly, Denmark has two big banks claiming almost 60 per cent of the market, with Copenhagen Handelsbank merging into Danske Bank and Privatbanken, SDS and Andelsbanken forming UNI BankDanmark.

In Norway, two of the country's three top banks, Den norske Creditbank and Bergen Bank, have created Den norske Bank. And three of Sweden's major banks are swallowing up the regional ones, with Gotabanken consuming Wermlandsbanken and Skaraborgsbanken, Handelsbanken digesting Skanska Banken, and PKbanken partaking of Nordbanken.

The reason for this flurry of activity is plainly 1992. Scandinavian banks are small by European standards and traditionally have been stay-at-home types, but they fear that they are falling behind. Moreover, the strict regulations that have shackled banking activity are being eased as the Scandinavian governments adhere more to EC policy guidelines.

There are opportunities as well as threats, as the Scandinavians see it. The opportunity is for their banks to expand abroad in the wake of the region's numerous multinationals. The consolidation that is taking place in the domestic markets is likely to be only a preliminary step to the establishment of several Nordic *megabanks* that could compete on an equal footing with the European giants.

The threat is that it is already too late. The Scandinavian banks could become targets for foreign takeovers. Seen in that light, the shake-up in Nordic banking could be mainly a defensive move.

One Stockholm banker confesses that he fears waking up one morning and finding that his bank has been transformed into the Nordic branch of Deutsche Bank.

OBSERVER

Socialist perk

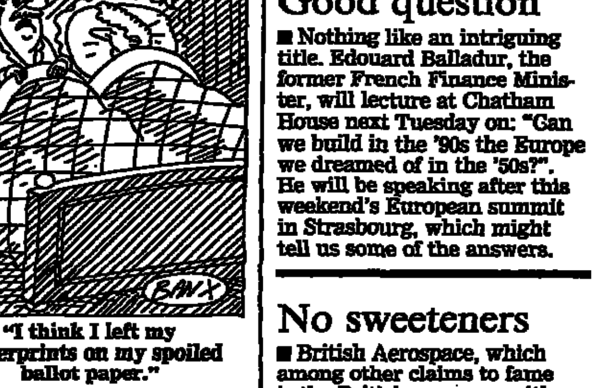
■ A London stockbroker tells us that he was staying in a remote part of the Mekong Delta close to the Vietnamese border with Cambodia. The rate for a room in the hard currency hotel was $26 a night, but the stockbroker discovered that there was a special rate for people from socialist countries. He explained that he lived in the London Borough of Camden, which is far more socialist nowadays than most of Eastern Europe. His rate was reduced to $18.

Still nuclear

■ There is supposed to be a Government ban on the construction of new nuclear reactors in Britain. Christopher Harding, chairman of state-owned British Nuclear Fuels, does not believe it.

BNFL operates Britain's oldest nuclear stations, Calder Hall, generating for 33 years, and Chapelcross, 30 years. Last year it earned £55m from electricity sales. It is midway through a feasibility study to see what it might replace them with, in order to continue as a commercial nuclear electricity supplier.

BNFL stresses that it is considering only commercially proven reactor types, which tends to narrow the field to just one – the pressurised water reactor. But surely the Government has just declared a moratorium on PWRs after Sizewell B?



"I think I left my fingerprints on my spoiled ballot paper."

Harding says confidently that he plans to continue the study – "and I have government support" – for completion next summer. He thinks that the nuclear industry can establish that nuclear power is economic, despite recent figures.

Smart move

■ The resignation yesterday of John Reynolds, economist at Prudential-Bache Capital Funding, to join County NatWest as market strategist and associate director next month shows that movements in the City are still going on.

The 29-years-old Reynolds will work in tandem with Bob Semple, County's market strategist, and could be a full director of the securities arm of the bank within a year or so.

County NatWest was not the first to seek his services. A few weeks ago Reynolds was approached by Nomura International, the London arm of the Japanese securities giant.

He has established a wide range of contacts in his four years at Prudential-Bache. Born in Hertfordshire and educated at Alleyne's School in Stevenage, he took an MSc in economics with distinction from London University. Before he entered the City his reputation lay in football and badminton.

Good question

■ Nothing like an intriguing title. Edouard Balladur, the former French Finance Minister, will lecture at Chatham House next Tuesday on: "Can we build in the '90s the Europe we dreamed of in the '50s?". He will be speaking after this weekend's European summit in Strasbourg, which might tell us some of the answers.

No sweeteners

■ British Aerospace, which among other claims to fame is the British company with the biggest public affairs payroll, has apparently gone into hiding after the disclosures about the terms of its takeover of Rover.

The group's pre-Christmas press reception at its headquarters in the Strand was to have taken place yesterday. This has become a famous annual affair. Aerospace journalists are said to spend weeks looking forward to it.

The party was called off at the last moment yesterday. The corporate headquarters press office, which tops a 68-strong list of BAe public affairs people, was jointly unavailable in a meeting most of the afternoon, but a secretary said she had been told the cancellation was "due to events that have happened." The company is planning to hold the event later, when it hopes the dust will have settled.

Keep going

■ Sign seen in a London school: "The End of History may be at hand. The end of algebra is not."

Will Dawkins and Hugo Dixon report on France's phone system

The apron strings are being untied

It may seem odd that Jean-François Berry, head of the French telephone users' association, is a contented man.

France Télécom and its government masters have earned a bad reputation among their liberal European Community neighbours for delaying EC moves towards telecommunications deregulation and for being more interested in defending their public telephone monopoly than in looking after the people who use the service.

Yet according to Mr Berry, who represents 800 big, and very critical, corporate telecommunications customers, the reality is very different. French telecommunications users are happy, he says, because their phone charges among the lowest in the world, below even pro-competition countries like Britain and West Germany. They have the world's largest data switching network; the most digital transmission capacity; and the leading videotext service, Minitel.

Add to that France Télécom's fast response to the demands of Mr Berry's organisation for new services such as itemised phone bills, and the picture is of a European leader in public telecommunications, not the laggard its critics have in mind.

Paris is, however, now embarking on its own telecommunications reform, partly driven by EC deregulation and partly by France Télécom's desperate keenness to be freed from heavy political control.

The French government recognises that France Télécom needs to be given its head if it is to compete effectively on international markets. None the less, it is not about to abandon its commitment to a strong public service ethic. The policy of providing modern telecommunications facilities on a uniform basis across the nation is responsible for the success of services such as Minitel, officials argue.

Reform plans to be submitted to the French Parliament next spring, will give operating autonomy to France Télécom and the Post Office, currently divisions of the Post and Telecommunications Ministry. The telecommunications regulatory authority will stay as it is, as another section of the Telecommunications Ministry. There will be new rules specifying which areas of the market will be open to competition and which will be France Télécom monopolies.

The current ferment in policy was started by a recent independent report commissioned by the Government from Mr Hubert Prévot, former head of the national planning agency. The report warned that France Télécom needed to change in order to compete once EC plans to liberalise the provision of telecommunications services from 1993 are implemented. Mr Paul Quilès, the French Telecommunications Minister, first has to persuade the twin organisations' 435,000 sceptical and well-organised employees that they will not lose the job protection they now get from being civil servants. His negotiations, which started in September, are going well, but it will be tricky to bring them to a successful conclusion.

Moderate unions like the white collar FO and the CFDT accept that change must come, but the highly influential Communist-led CGT – the union that recently organised the worst strike ever experienced at Peugeot – would like to scrap the plan. They see it as a covert attempt to revive a privatisation plan tentatively floated by Mr Gérard Longuet, Mr Quilès' predecessor. Mr Quilès' advisers deny this is the case.

So far, the Government has cleverly used EC pressure for liberalisation to lean on the unions to accept reform. Even more cleverly, it has been able to use union resistance to support its own arguments in the Community for more cautious liberalisation than proposed by the Commission and supported by Britain and West Germany.

The pressure for change is partly European, but the Government probably would not be moving so fast were it not for the demands of France Télécom, its suppliers and users.

France Télécom's managers strongly resents the Finance Ministry's right to help itself to their revenues to fund the state budget. They can never predict how much the annual charge is going to be (last year it was FFr13.1bn out of a FFr87.6m turnover) – a real handicap at a time when the organisation is investing heavily in new services like mobile telephones and integrated services digital networks.

"Above all, we need fiscal stability. Under present conditions, our finances are decided for political reasons, which means we cannot make contracts on a commercial basis," says Mr Marcel Roulet, France Télécom's director general. "I am not asking for total freedom," he adds. "I accept that the Government should be allowed to set three basic parameters: our quality of service, our maximum level of borrowing and our prices – but that is all."

France Télécom's suppliers agree that change is needed. "At present, we have a master-slave relationship," says Mr Jean-Claude Lavenir, head of SIST, the telecommunications equipment makers' association. He says that conflicts over contracts cannot usually be resolved in court as they could be if France Télécom were a state-owned company. The Government instead decides, as "judge and jury in its own case."

Nevertheless, French telecoms manufacturers are finding that their cosy world is being shaken up as a result of new entrepreneurial spirit at France Télécom. Just as the state is in the process of untying the apron strings which bind France Télécom to it, France Télécom is developing a more arms' length relationship with its suppliers.

"In the 1970s, there was a policy to build a strong telecoms industry to serve the DGT [as France Telecom was then called] and become a player on the world market," explains Mr Jean Grenier, who until recently was in charge of the group's purchasing policy. "Procurement policy was very nationalistic."

The costs of developing new technology, however, are driving France Télécom to buy equipment from foreign manufacturers. In the past it was possible to finance the development of two competing systems for the domestic French market alone. Now, France Télécom now has to go abroad to find competitors to Alcatel, the dominant local manufacturing group.

Competition from abroad is also compelling France Télécom to open up its purchasing policy. Companies like British Telecom and American Telephone & Telegraph are not free to compete on France Télécom's home turf, but they could offer large multinational clients a better service and so persuade them to locate their telecommunications hubs elsewhere.

France Télécom cannot therefore afford to fall behind other operators in the race to modernise networks. So if domestic suppliers do not have the relevant piece of equipment, it is forced to buy from foreign companies.

Nevertheless, the industrial policy of the past decade has meant that Alcatel is now in a strong position to fend off competition from abroad except in specialist new areas such as mobile communications, intelligent networks, private circuits and fibre-optics. More vulnerable are smaller French manufacturers, such as SAT, which many observers feel will not be able to survive international competition and may be driven into tie-ups with larger foreign groups.

In addition to the law changing France Télécom's structure, there will be new rules spelling out for the first time those areas where France Télécom has to face competition. Under the present legislation, which dates back to 1837 when Louis Philippe was attempting to control the embryonic telegraph service, the Telecommunications Minister has carte blanche to grant telecommunications licences to whomever he wishes.

A monopoly will be maintained on the basic network and phone service. Value added services, such as home banking, and telecommunications terminal equipment, will remain open to competition, although there will still be tough licensing conditions.

It is uncertain, though, what exactly will happen to mobile, satellite and basic data communications – three of the fastest growing parts of the market.

The policy towards mobile communications is probably the most important, because this is the area where France's *dirigiste* policy has failed most notably. France Télécom executives did not appreciate the importance of mobile communications because they were concentrating on putting in fibre-optic cables and Minitel terminals.

The upshot is that density of mobile phones in France is one fifth of the UK's and one twentieth of Scandinavia's. The position "is honourable, but not consistent with France's general position in telecommunications," says Mr Jean-Jacques Damlamian, head of France Télécom's mobile operations.

Although the policy on mobile communications remains fuzzy, it is basic data communications that have proved the bone of contention between Brussels and Paris.

The French government initially wished to maintain a complete monopoly on basic data switching in order to protect France Télécom's public service mission. "If the public service has to connect everybody even if it costs money and the competitors cream-skim all that is profitable, that is the end of the public service," argues Mr Bruno Lasserre, head of the telecommunications regulatory authority.

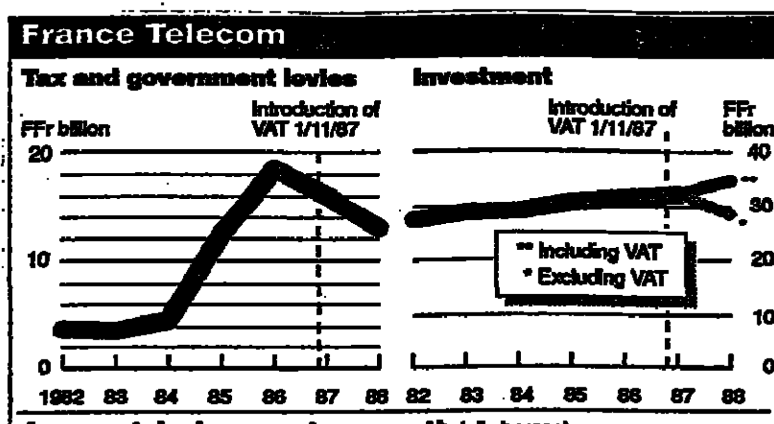
Now, however, France has softened its position and is proposing that private companies should be allowed to compete but only provided they adhere to strict conditions which will ensure that they do not undercut the public data service. As EC President, France has launched a diplomatic initiative to persuade other member states to back this new line in preference to the Commission's more liberal approach at a meeting of telecoms ministers which takes place today.

Nevertheless, despite the international controversy over basic data, the issue hardly registers with French users. "We do not have any complaint about the availability and prices of public data services," says Mr Berry.

The overall package of reforms now being planned in France may not go as far as economic liberals in Britain or West Germany, which have already embarked on more radical reforms, would like. But, unlike the other two nations, France is reforming its telecommunications structure from a position of comparative strength.

The aim is not so much put pressure on an inefficient public monopoly which has forgotten how to look after its customers as to give an efficient operator the freedom to stay ahead of the game while retaining a strong public service ethic. When domestic users are so contented, it is difficult for outsiders to carp.

France Telecom



Average telephone cost per month (all charges)

DOMESTIC	FFr	BUSINESS*	FFr
US (New York)	145	US (New York)	1,584
France	156	France	1,681
UK	219	UK	2,540
W. Germany	225	W. Germany	2,236
Japan	356	Japan	3,544

Source: Logica

* Excluding VAT; US includes tax

LOMBARD

The 'logic' of bosses' pay

By Michael Skapinker

IS THE PAY of Britain's top executives based on rational principles, in which rewards are linked clearly and fairly to performance, or is the guiding motivation nothing more than the desire to be rich?

Evidence for the latter proposition is to be found in the Burton Group's recent announcement of the new salary to be paid to its chairman, Sir Ralph Halpern.

Sir Ralph is not just another well-remunerated executive. He has presented himself as the champion of the highest-paid, arguing forcefully over several years that those who achieve success should be rewarded for it.

Even so, it might seem perverse to single him out for criticism, given that his pay actually fell by £97,000 to £899,000. On the basis of Burton's pay formula, however, which is based on earnings per share growth, it should have fallen even further. It did not because of a one-off discretionary payment awarded by the non-executive directors.

Whatever the justification, it would have been better if the Burton formula had been strictly applied. The targets Burton set for Sir Ralph were testing ones. He profited handsomely when he achieved them. He should have accepted whatever pay cut his performance merited. It is payments of this sort which encourage the view that Britain's bosses make up the rules as they go along.

Sir Ralph is a long way from being the worst offender. At least his group's pre-tax profits rose 5.7 per cent, at a difficult time for retailers. Moreover, this is the second year in a row that Sir Ralph's salary has fallen.

There have been instances of chief executives accepting pay rises when their companies' profits have fallen. And there have been many cases of executives' receiving percentage increases far in excess of their companies' rise in profits.

Britain's well-paid say that their pay increases have nothing to do with them. It is the non-executive directors who decide. But no-one can be forced to accept a pay increase. A chief executive who turned one down would demonstrate a level of leadership that has been lacking in British boardrooms.

The most unfortunate aspect of the way UK chief executives have dealt with their pay is that they have spoiled a perfectly respectable case.

There *was* something perverse about a country which took the newly-rich to its heart only if they made their money by playing football or singing pop songs, rather than by manufacturing and selling goods. British executives *were* poorly paid compared to their counterparts abroad.

Most important, at a time when Britain desperately needed to become more competitive, there was every reason to tie top management's pay to results.

Having established the rules by which their remuneration was to be calculated, executives should have been prepared to play by them. Their obligation to do so was all the greater because there was no effective check on their ability to pay themselves whatever they wanted. Non-executive directors have not in general shown a willingness to stand up to well-paid chief executives. Although institutional shareholders have been able to impose some restraints on the size of share options offered, individual shareholders who have complained about excessive pay increases have usually been ignored.

Having obtained such power for themselves, too many executives have abused it. When their companies' performance did not merit an increase, they shifted the argument and said they should be paid as much as their colleagues in other industries. When they were paid as much as their colleagues in other industries, they complained that they were not paid as much as their counterparts abroad.

They have appeared oblivious to the effect their increases might have on the pay claims of employees, on inflation and on British competitiveness. Some have demonstrated an "I'm all right, Jack" attitude which would have been the envy of a 1970s trade union leader.

LETTERS

Dealing with Taurus

From Sir Colin Campbell.

Sir, Your editorial ("High cost of share deals," December 5) is too facile for the smaller public companies such as ourselves.

As we understand it, the Taurus procedures are designed to retain the competitiveness of the London market internationally, benefiting the practitioners in the market rather than the companies whose shares are traded therein.

We continue to feel it essential that our shareholders have a document of title for their holding, and that whatever process is evolved enables companies to update their share registers weekly.

There has been a tendency in recent years to increase the financial burdens of companies whose shares are quoted; one can foresee a further step in this direction. We very much hope that in the final proposals the two desiderata set out here are catered for without significant additional costs.

Colin Campbell,
James Finlay,
PO Box 58, Finlay House,
West Nile Street,
Glasgow, Scotland

Benefits in broadcasting

From Mr Patrick Barwise.

Sir, I was sorry that Mr David Mellor, the new Broadcasting Minister, has started by announcing such a strong personal commitment to sell ITV (independent television) franchises to the highest bidder (November 29).

He rightly says that this would be the best way of finding out what a franchise is worth – but that is hardly the main concern.

Instead, the UK Government's stated aim is "to place viewers at the centre of broadcasting policy:" the very opposite of what this proposal will achieve.

A policy which maximises the tax yield from ITV advertising is bound to reduce ITV programme budgets, which is bound to be bad for viewers and advertisers. The only beneficiaries will be the Treasury and perhaps the BBC.

Patrick Barwise,
London Business School,
Sussex Place,
Regents' Park, NW1

The number you are calling is 1992

From Mr G. McKendrick, International Telecommunications Users' Group.

Sir, Users of public data communication services in Europe suffer from poor service. These services have been designed by technologists with technological needs in mind; they are unfriendly to the normal business user.

They do not generally work well within countries, and they are a disaster when two countries are connected together. There are no standard log-in or call progress information procedures, and those that exist are largely incomprehensible to the average user. Telecommunications prices are generally expensive, and the tariffs are difficult to understand. Call failures average one in four.

Users believe that competition would enable them to obtain effective services at affordable prices. They believe that countries' telecommunication networks should compete in each other's territories – for example, Transpac offers services in the UK – and international operators should be permitted. The European Commission shares this view.

When its recommendations for telecom liberalisation were endorsed by the European Community's Council of Ministers on June 30 1988 it seemed that all was plain sailing. However, the forces of reaction are strong, and in the drafting of the directives to give effect to the Commission proposals the prospects of telecommunications competition are receding, daily.

The EC Council of Ministers met on November 7 and did nothing to correct the draft's defection from the previously agreed position. They arranged to meet again on December 7, which may be a last chance to get back on the rails.

The development which has changed opinion between June 1988 and now is the change of government in France. This has produced a cooling of enthusiasm for telecommunications liberalisation in that country, and provided strong leadership in the EC for those who were never keen in the first place – particularly Belgium, Greece, Spain and Italy.

These countries have persistently sought to write the rules less liberally than was intended, to extend them to inappropriate places, and to introduce ambiguity to leave scope for unfavourable interpretation, thus undermining the thrust of the original intention.

This applies not only in the rules relating to data networks but to those which will govern private circuits. User interests in these countries oppose these positions, but have been ignored.

There is an almost equal political balance in the EC debate.

The UK, West Germany, the Netherlands, Denmark and Ireland are pro-liberalisation. So, indeed, is the European Commission – and Sir Leon Brittan, the senior UK Commissioner, has been unequivocal in his determination to move in the direction of competition. Hence a deadlock has developed – and this has encouraged the French chairman to propose a compromise solution which would not, however, result in the required improvements users seek.

The conditions he proposes would constrain potential service providers, and would not enable the benefits of competitive supply to be realised. His proposed delay – to 1993 – of some beneficial measures is excessive and unnecessary. The compromise suggested is a short move from the unacceptably illiberal proposals put previously by the same clique. It still falls far short of what telecommunications users (and the European Commission) expected.

The high profile given to telecommunication problems in the run-up to the single market of 1992 is because it had been identified, early on, as a vital element of the infrastructure to support the Common Market. The Commission has done well, in difficult circumstances, up to now. It will be a great pity if the Commission's foresight and hard work are to be brought to nought – as seems likely – by an unfavourable outcome to the meeting of Ministers on December 7.

G. McKendrick,
Director, International Telecommunications Users' Group,
18 Westminster Palace Gardens,
Artillery Row, SW1

The problem is poverty

From Mr Henry Hardman.

Sir, Your reviewer says that reforms recommended by Christian Aid to deal with world food problems, "if implemented, would presumably ameliorate the situation," but she rightly dismisses them as impracticable (November 23).

Ought we not to go further, and recognise that the problem is world poverty rather than the more emotive "world food needs"? That would help to secure understanding that progress towards lessening it can best be found through commodity support related to farmers, but by financial aid from rich countries to poor.

Henry Hardman,
9 Sussex Square,
Brighton, East Sussex

All in a day

From Captain J.A. Passmore.

Sir, David Churchill, in his article "Away-Day to New York," seems to have got confused with real time and real elapsed body time – whatever that is – when he says that the hot-shot executive will have been up for nearly 20 hours at least if he goes to New York for the day.

Assuming he rises at 0630, is in his office at 0800, has his meeting in New York and arrives back at Heathrow at 2225, he will be at home before midnight: a 17½ hour day; a normal length of day for many businessmen and women.

Jim Passmore,
General Manager/Flight Crew,
British Airways,
PO Box 10,
Heathrow Airport (London)

Fax of matter

From Mr Edward Kellett-Bowman MEP.

Sir, The proliferation of facsimile machines leads to confusion and expense because people put their fax numbers on letterheads. Very soon, electronic mail numbers will also become commonplace.

May I, through your columns, propose that non-telephone numbers are put in a box on letterheads?

Edward Kellett-Bowman,
Naishes Barn, Newnham,
Basingstoke, Hampshire

FINANCIAL TIMES
Thursday December 7 1989

PHILIPPINES REBELS HOLD OUT

Mrs Aquino declares emergency

By Roger Matthews in Manila

THE EMBATTLED government of President Corazon Aquino yesterday declared a national state of emergency to combat "the serious social and economic damage" caused to the Philippines by the continuing military rebellion.

Rebel troops permitted several hundred foreign tourists and businessmen to be evacuated from the hotels in which they had been trapped by four days of fighting. But the rebels, estimated at about 400 men from the crack Scout Rangers battalion, still have control of Makati, the main business and financial district of Manila. Other rebel forces are holding the air force base at Mactan just outside Cebu, the country's second largest city.

Under the state of emergency, Mrs Aquino has power to take over or direct the operations of any company, the activities of which are very broadly defined as "concerning the public interest." Several of the most prominent companies in Manila are either associated with the late President Ferdinand Marcos or with opponents of Mrs Aquino.

She has also invoked existing powers to prevent the media from reporting statements by the rebels, or giving any information about government troop deployment. Two radio stations, one in Manila, the other in Cebu, have been taken off the air under regulations which allow the government to close down any organisation deemed to be proposing or inciting treason. The government denied the new regulation amounted to censorship.

A bus takes tourists and businessmen to safety in Manila after they were allowed through by rebels yesterday

Several hours after the state of emergency was declared local television stations carried an interview with one of the rebel officers, who again demanded the resignation of Mrs Aquino.

Presidential aides emphasised yesterday that the measures taken stopped well short of martial law, which is associated in all Filipino minds with President Marcos. In an effort to invoke the surge of popular emotion which toppled Mr Marcos nearly four years ago, Mrs Aquino has called for a "people's power" demonstration tomorrow "to show that there are still Filipinos who love their country."

The powers taken by Mrs Aquino and the bid to rally her waning public support are an acknowledgment that if surrender talks with the rebels fail it may be almost impossible to dislodge them militarily. A member of the National Security Council said that a military solution was not an option because of the loss of life and heavy material damage which would result from any attempt to storm the 18 or so buildings they occupy.

"We continue to expect that when they see no reinforcements are coming they will return to barracks," he said, emphasising that, because of military sensitivities, the word "surrender" could not be used. "The men we really want to identify are the political prostitutes who have been financing this operation," he added.

Mrs Aquino's adviser also accepted that there was a "public clamour" for government changes and a more activist cabinet. He thought that these demands would soon be met by the president.

A senior American diplomat in Manila confirmed yesterday there was evidence that the rebellion had been carefully planned, with food and ammunition stockpiled in advance in Makati.

Such beliefs have led some officials to speculate that there may be a further stage in the rebellion aimed at more widespread attempts to disrupt the economy. This could take the form of inciting popular resentment over prices, creating supply shortages or sabotaging distribution networks.

The government has already imposed price ceilings on rice and other basic foodstuffs.

Japanese economic growth set to outstrip forecasts

By Robert Thomson in Tokyo

THE Japanese economy grew 2.9 per cent in the third quarter, suggesting that growth for the year will outstrip most predictions.

Consumer spending has also rebounded after a slump brought on by the introduction of a consumption tax earlier in the year. Figures released yesterday by the Government's Economic Planning Agency showed a second quarter contraction of 0.8 per cent in GNP to be an aberration. The agency had predicted that growth for fiscal 1989 to end March would be 4 per cent, but now plans to revise the figure upwards.

The effects of the 3 per cent consumption tax, introduced at the start of April, have worn off and expenditure rose 2 per cent quarter-to-quarter. Private investment in plant and equipment showed a 7.3 per cent increase, with a 2.1 per cent increase in private housing investment.

Economic growth for the three quarters has totalled 4.6 per cent. Growth of less than 1 per cent in the final quarter will produce an annual figure that exceeds most government and private expectations.

Dr Kenneth Courtis, chief economist at DB Capital Markets (Asia), said that Japan had entered a long-term consumer spending binge akin to that of the US in the 1950s. "In the future, we will look back and regard this as a golden period," he added. The sustained investment of Japanese companies suggested they were re-positioning themselves for long-term growth, while relatively low public expenditure levels indicate that the Government is ready to "support the economy on demand."

Ms Chiharu Sumita, of UBS Phillips & Drew, said that growth in the third quarter was "stronger than expected" and that "private consumption growth was very strong." She expects a slowdown in the final quarter, and predicts that growth for the year could be around 5 per cent.

"The economy can't maintain this pace for too long. We are looking for a slowdown," she said.

THE LEX COLUMN

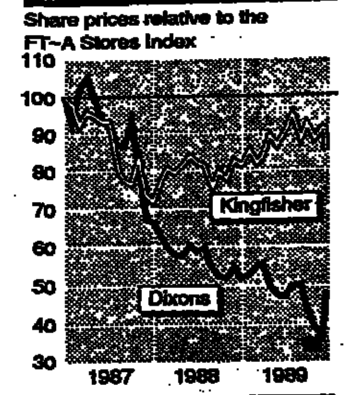
The ghost of Dixons' past

The jump in Dixons' share price yesterday to 18 per cent above the Kingfisher offer looks doubly surprising. It is by no means clear how the bid is to get past the competition authorities: or if it does, why Kingfisher should have to pay much above its opening shot. The combined business would have a quarter of the UK market, five times the share of the nearest competitor. Kingfisher points to the emerging retail importance of the electricity boards. But when Dixons bid for Woolworth three years ago, it felt it prudent to pre-sell Comet; since then Dixons has bought Wigfalls and Kingfisher has bought Laskys.

At 120p, the offer is close to 20 times this year's earnings for a company which faces at least one more year of dreadful trading. Given the history of rancour between the two, Dixons might well seek an overseas champion. But it is not clear who might enter the lists, especially given that Kingfisher not only stands to make greater savings than anyone else but presumably has a more intimate knowledge of its target.

It does not necessarily follow that Kingfisher is wise to want Dixons in the first place. Even at the opening 120p, its 1990/91 earnings could be diluted by 10 per cent or more. Like Boots with Ward White, it is playing the contrarian and seeking to buy towards the bottom of the market. In the process, it risks losing the last of its defensive strength as an asset play. The real question, though, is whether Kingfisher's management is entitled to the market's patience for the two or three years it would take for the strategy to pay off. On its record to date, the answer might be yes.

Share prices relative to the FT-A Stores Index



Water

It is almost like old times; queues on the City streets for a privatisation and a high street bid battle. The institutions are flush with cash, the FT-SE 100 is within 3 per cent of its all-time peak and all is right with the world. The Government must be especially pleased that the popular capitalism bandwagon is rolling again, thanks to the simple device of selling water cheaply. The signs are that the overseas clawback will be triggered - meaning that at least £2.1bn has been offered for the partly paid shares and that the final figure will probably be substantially higher. If the stock market maintains its euphoria till next Tuesday, the first day premium should be 20 to 30 per cent. The tricky bit is whether the market will stay relaxed for long enough about the economy and the kind of results that Saatchi and Norcros produced yesterday for small shareholders to take their profits.

Norcros

Just two years ago Norcros narrowly escaped a bid from Williams Holdings. It has done little to justify shareholders' faith since then and is now capitalised at less than 60 per cent of the value of the bid. The fact that fat still needs to be shed in the ceramics division makes one wonder whether the bid delivered a sufficient shock to the company's system. Michael Doherty, appointed as chief executive last year, may have been unlucky to hit a building sector slump so early in his tenure. But his bravado in maintaining the interim dividend on earnings down 41 per cent could look foolhardy by the time of the full year figures. Some analysts think that earnings, after redundancy costs, will not cover a maintained final. The bid rumours have duly started again.

British Land

Ritblat's First Law of real estate finance sounds straightforward enough. Tax-driven some its finer points may be; but Mr Ritblat's plan to break British Land in two and sell some £790m of investment properties rests on a simple proposition. If the stock market chronically under-rates large property companies, the management must rescue lost shareholder value; if that means semi-liquidation, so be it.

At second glance the picture is less clear. The scheme is certainly tax-efficient, owing to the 1987 Finance Act, which allowed companies to offset their ACT liability against capital gains tax. The degree of equity between all parties is less certain. If everything goes to plan Mr Ritblat, his family and partners will end up in late 1994 with 27.5 per cent of New British Land, the new company carrying on British Land's development programme. This arrangement is a much better deal for public shareholders than LWT's recent restructuring scheme; but it also looks like the plan's most obvious weakness in institutional eyes.

Not that Mr Ritblat's scheme is a bad one. Rough calculation suggests the two British Land companies' shares could trade at well over £4 in aggregate, compared with November's level for British Land of 320p or so. The snag, impeding other property companies from following suit, may simply lie in their more complex finances. It is hard to see Land Securities, with £780m of mortgage debentures in issue, juggling its structure so adroitly.

Saatchi

While Saatchi's full year results were not much worse than expected, the share price reaction was a good deal better. Even before the kitchen-sink type write-offs, attributable profits were only £3m; after them, the net loss was equal to one eighth of the group's market value. The shares rose 15p to 263p, giving a prospective multiple of around 30 and a yield of under 5 per cent – oddly generous for a company with negative net worth and net debt at over £150m and rising.

If the speculators are pushing the shares in hopes of a bid, they could be disappointed. Too much needs doing with the group as it stands. In particular, the consultancy businesses need to be sold as a matter of some urgency. Although Saatchi professes itself relaxed about interest cover, it cannot at present be much over twice. Depending on the prices fetched and the timing, the remaining advertising business could still have its attractions. But to justify anything like the present share price, the recent management changes must be seen to be effective. Like Amstrad, Saatchi appears to have grown beyond the limits of its original management; shrinking it back to size is a task for the new team.

Fed figures suggest US economic slowdown

By Lionel Barber in Washington

MORE evidence of a slowdown in the US economy, particularly in manufacturing, appeared in the Federal Reserve's Beige Book regional survey published yesterday.

The survey said that the majority of districts reported weakness in manufacturing activity, though there were pockets of strength in construction, agriculture and several energy industries. Two districts reported an overall softening in local economy.

The report said that prices, however, were reported to be flat or slightly higher. Several districts mentioned the continuing escalation of medical insurance costs.

The Beige Book is the summary of economic activity prepared for use at the Fed's Open Market committee meeting. The next meeting is scheduled for December 18-19.

Evidence of a slowdown in the US economy has been mounting recently. This week, reports showed that new factory orders and sales of new homes dropped last month. Last week, the index of leading indicators fell 0.4 per cent, matching an unfavourable report from the National Association of Purchasing Management.

Economists and financial markets are now looking to see whether the Fed, through its money market operations will lower interest rates to revive the economy.

The latest Beige Book report says that consumer spending has varied among districts, with retail sales mixed throughout the country.

Weakness in the car industry and among suppliers was commonly blamed for the slowdown being felt in areas such as Philadelphia, Boston and lastly Cleveland "where the pace of activity was strong for the first nine months of the year."

On the brighter side, capital spending in Atlanta continued to rise in the chemical, metals, wood and pulp, and industrial equipment industries. While, in still-depressed Texas, firms in Dallas producing oilfield equipment and chemicals increased their sales.

Trade deficit forecast, Page 6

Civic Forum to have veto on new Czech cabinet make-up

By John Lloyd and Leslie Colitt in Prague

A NEW Czechoslovak government was being formed yesterday in negotiations between Mr Ladislav Adamec, the Communist Prime Minister, and the Civic Forum opposition.

Under pressure from a vast demonstration on Monday and a threatened strike, Mr Adamec is to propose today a new cabinet to the praesidium of the National Front, the body which brings together the Communist party with its formerly allied parties, the Socialist and People's parties. Civic Forum submitted a series of proposals for the reshuffle.

At the same time, Mr Josef Bartoncik, chairman of the People's Party, has proposed that the new government be split 50/50 between members of all parties including the Communist party and non party members.

Mr Adamec last night protested that the conflicting pressures on him could prove too great. In a televised address, he threatened to resign if the government he is expected to announce tomorrow is not accepted.

Mr Vaclav Havel, the playwright, who led the Civic Forum delegation at the meeting with Mr Adamec, said the Prime Minister had promised to propose government changes to Mr Gustav Husak, the President, today – but only after he had cleared the list with Civic Forum.

The fact that Civic Forum is getting an effective veto over the administration's make-up marks a new success for the three-week-old group.

Discussions within Civic Forum on a replacement for Mr Husak, whose resignation it has demanded, centred yesterday on three names: Mr Adamec, Mr Havel, and Mr Alexander Dubcek, the Communist leader deposed after the 1968 Soviet invasion.

Mr Adamec's recently formed "government of experts" disappointed both Civic Forum, Public Against Violence (the Forum's parallel organisation in Slovakia), many Communist party members and, apparently, most citizens.

Only five non-Communist ministers were appointed out of 21, none in senior positions.

In an earlier meeting with the Forum, Mr Karel Urbanek, the Communist party leader, appeared to support a reshuffled cabinet when he said – according to Mr Havel – that he supported Forum's proposal that the Government "would consist of young, able people who are experts and are not discredited."

Mr Urbanek promised that the party-controlled Workers' Militia had deposited their weapons in army stores and would act only as a force to deal with national emergencies. He added that the STB secret police had "lost its purpose", and that the Communist party "realised the deeply rooted mistrust of people against it".

The power structures of the party and government continued to topple. Five hardline members of the Slovak National Council resigned, including Mr Villiam Salgovit, a signatory of the appeal to the Warsaw Pact to invade in 1968.

Bush to approve renewal of voluntary steel quotas

By Nancy Dunne in Washington

PRESIDENT George Bush this week will sign legislation authorising a 2½-year renewal of a US "voluntary" quota programme which will reshuffle the shares of the US imported steel market.

Under the programme – details of which are expected to be announced today – the US will cut Japan's quota allocation, while giving higher shares to Brazil, Mexico and other Third World producers.

Mrs Carla Hills, the US Trade Representative, is also expected to announce several agreements by signatory countries to phase out or ban subsidies of their steel industries. US officials expect these agreements to be folded into a permanent agreement under the Uruguay Round of international trade talks.

The steel legislation also contains a provision altering a surtax on petroleum products, which was found illegal under the General Agreement on Tariffs and Trade.

The fee was higher on imported oil than on domestic oil. The amendment would equalise the two rates by imposing a 9.7 cents-per-barrel tax on all petroleum products.

Although most pieces of the steel quota programme have been fixed for weeks, the Administration has been unable to reach a settlement with Brazil.

The dispute was finally resolved last Friday with an agreement which reportedly gives Brazil the largest increase among the five main suppliers, a possible boost in shipments of as much as 55 per cent over the next two years.

The new voluntary restraint agreements follow a five-year protection programme, instituted by the Reagan Administration.

It puts an 18.4 per cent lid on the US import market, but distributes an additional 1 per cent to those countries which have agreed to end subsidies.

UK water sale oversubscribed

Continued from Page 1

going to, but that's simply nonsense."

The exact level of oversubscription will not be announced until next Monday, at the same time as the Government will make known the different ways that the 10 companies will allocate shares. Although stock market dealings are to start the next day, December 12, shareholders will have to wait until just before Christmas before receiving share certificates.

Arrangements whereby shares are clawed back from overseas investors and made available to the public depend on demand for the aggregate number of shares in the companies.

But clawback from UK institutional investors hinges on subscription for shares in the separate companies, which may have varied widely. It is triggered when an offer is more than 2.25 times subscribed by the public. The public could own a maximum of 47 per cent of the shares on offer.

On the indications of the queue in the City of London, people from all walks of life, not all of whom agree with the principle of selling off the water companies, have proved keen to benefit from the flotation.

Mr Dave Robbins, a videotape editor, said: "I disagree with privatisation on principle but if the Government is going to give money away I might as well cash in on it."

By no means everyone was buying the shares with the aim of a quick profit.

A female newspaper-seller said: "This is the first time I've done this – I was told there'd be a queue, but not this long. I'll probably hold on to the shares."

Land prices in Tokyo surge again after lull

By Stefan Wagstyl in Tokyo

LAND PRICES in Tokyo are rising again after an 18-month lull, in spite of measures by the Japanese Government to control increases and stamp out speculation.

Japanese estate agents say sharp price rises in provincial cities, catching up with past increases in Tokyo, could stimulate a new round of price rises in the capital.

However, the general view is that urban land is unlikely to triple in value in the 1990s as it has in the 1980s.

Many agents foresee a period in which buyers become increasingly selective, seeking well-sited properties and ignoring those that they might have bought at the height of the speculative boom two years ago. The estate agents' views will reinforce calls for more government action to increase the supply of land to the market and stem demand in large cities. So far, the Government has largely relied, with some success, on pressure on banks to cut real estate lending.

However, the Government is now expected to consider tougher measures, including a revision of tax-breaks on farm land in urban areas. Mr Toshiki Kaifu, the Prime Minister, yesterday agreed to hold a special cabinet meeting in the next two weeks on land issues.

The Japan Real Estate Research Institute, a private research centre, said Tokyo prices had risen by 0.4 per cent for commercial land and 0.3 per cent for residential land in the past six months, after 18 months of steady decline. Prices in the central shopping area of Ginza and in Marunouchi, the business district, rose 2.8 per cent. However, in the same period, prices in the Osaka region have jumped between 20 and 21 per cent.

The Japan Real Estate Companies Association said yesterday it was very concerned that increases in provincial cities would feed through to Tokyo.

A spokesman said prices in Osaka, traditionally 60 per cent of those in Tokyo, were now closer to parity. The association forecast Tokyo prices could rise 5 per cent in the next year, but increases in prime areas could be higher.

Summit agrees on Germany

Continued from Page 1

manys for reunification, he added: "The problem is there. Right now it has crystallised to a great degree."

He warned that the process towards creating a "common European home" could be upset if the question of German reunification was pushed too far.

Mr Mitterrand expressed his understanding of the German desire for reunification, but said "there can only be democratic changes, only peaceful changes."

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	[illegible]	[illegible]	[illegible]	Dubrovnik	[illegible]	[illegible]	[illegible]	Malta	[illegible]	[illegible]	[illegible]	Rhodes	[illegible]	[illegible]	[illegible]
Algiers	[illegible]	[illegible]	[illegible]	Edinburgh	[illegible]	[illegible]	[illegible]	Manchester	[illegible]	[illegible]	[illegible]	Rio de Jo	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	Faro	[illegible]	[illegible]	[illegible]	Manila	[illegible]	[illegible]	[illegible]	Rome	[illegible]	[illegible]	[illegible]
Athens	[illegible]	[illegible]	[illegible]	Florence	[illegible]	[illegible]	[illegible]	Melbourne	[illegible]	[illegible]	[illegible]	Salzburg	[illegible]	[illegible]	[illegible]
Bahrain	[illegible]	[illegible]	[illegible]	Frankfurt	[illegible]	[illegible]	[illegible]	Mexico City	[illegible]	[illegible]	[illegible]	San Francisco	[illegible]	[illegible]	[illegible]
Bangkok	[illegible]	[illegible]	[illegible]	Funchal	[illegible]	[illegible]	[illegible]	Miami	[illegible]	[illegible]	[illegible]	Seoul	[illegible]	[illegible]	[illegible]
Barcelona	[illegible]	[illegible]	[illegible]	Geneva	[illegible]	[illegible]	[illegible]	Milan	[illegible]	[illegible]	[illegible]	Singapore	[illegible]	[illegible]	[illegible]
Beirut	[illegible]	[illegible]	[illegible]	Gibraltar	[illegible]	[illegible]	[illegible]	Montreal	[illegible]	[illegible]	[illegible]	Stockholm	[illegible]	[illegible]	[illegible]
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Bordeaux	[illegible]	[illegible]	[illegible]	Inverness	[illegible]	[illegible]	[illegible]	New Delhi	[illegible]	[illegible]	[illegible]	Tokyo	[illegible]	[illegible]	[illegible]
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Copenhagen	[illegible]	[illegible]	[illegible]	Luxembourg	[illegible]	[illegible]	[illegible]								
Corfu	[illegible]	[illegible]	[illegible]	Madrid	[illegible]	[illegible]	[illegible]								
Dallas	[illegible]	[illegible]	[illegible]	Majorca	[illegible]	[illegible]	[illegible]								
Dublin	[illegible]	[illegible]	[illegible]	Malaga	[illegible]	[illegible]	[illegible]								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

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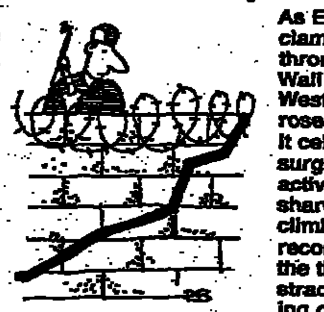
INSIDE

Tiphook manages to double its money

Tiphook, the UK container rental company involved in a long-running $1.02bn bid for Sea Containers, more than doubled pre-tax profits to £10.1m in the half-year to October 31, against £4.5m in the equivalent period. Mr Robert Montague (left) Tiphook's chairman, said the changed economic climate had not had an adverse effect on Tiphook's core business in the first half, thanks to strong financial controls. Page 29

Shares driven up the wall



As East Germans clambered over and through the Berlin Wall last month, the West German bourse rose to the occasion. It celebrated with a surge in trading activity and rising share prices. Volume climbed to near record levels during the three days that straddled the breaching of the Wall. This left Germany as the only European market showing an increase in turnover compared with October, writes Alison Maitland. Page 44

Shopping for Bloomingdale's

As Christmas shoppers pour into Bloomingdale's, the future of the prestigious US department store chain is being decided behind closed doors by people with no time to join the queues. Bloomingdale's was put on the block in September by its parent, the Canadian property and retailing group Campeau and tomorrow will see the first round of bids. Already, writes Karen Zagor, there are reports that offered prices will fall short of Campeau's expectations. Page 28

Where is the US cavalry?

Perkin-Elmer, a medium-sized instrument maker, is one of the few remaining US companies making the machine tools that semiconductor companies use to manufacture microchips. Its latest technology, MicraScan, puts it at the front of a field which underpins modern electronics. Why then is the US on the point of permitting the group to sell its semiconductor unit to a foreign, and almost certainly Japanese company? "How many such firms do we have to lose before it becomes important?" says Dr Robert Noyce (left), president of the US semiconductor company Sematech and co-inventor of the silicon chip. Page 35

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)		PARIS (FFr)	
[illegible]		[illegible]	
NEW YORK ($)		TOKYO (Yen)	
[illegible]		[illegible]	
New York prices at 12.30			
LONDON (Pence)			
[illegible]		[illegible]	

Saatchi cuts final dividend by 7p

By Alice Rawsthorn in London

Saatchi & Saatchi, the communications and consulting group, has ended the toughest year in its history by cutting its final dividend from 8.6p to 1.6p, reducing the total dividend from 16p to 9p.

After nearly two decades of growth Saatchi plunged into problems last year. Its communications companies were hit by rising costs and it experienced difficulties with its management consultancies, which it put up for sale in the summer.

The group announced a fall in pre-tax profits to £61.3m (£116.4m) on revenues of £973.5m (£862.2m) in the year to September 30. It tumbled into an overall loss – after tax, exceptional and extraordinary items – of £58.5m from profits of £75.1m last year. Fully diluted earnings per share fell to 23.1p (44.5p).

Saatchi's shares, which have fluctuated wildly in recent weeks on bid speculation and concern ahead of the results, rose 15p to 283p yesterday. Analysts in London and New York dismissed yesterday's increase as speculative buying.

The group described 1989 as "a tough year when many difficult decisions have been made." It has cut costs in communications and decided to withdraw from consultancy. Saatchi has also reshuffled senior management. Five directors have left the main board this year.

Two months ago Mr Maurice Saatchi, the chairman who founded the company with his brother Charles, relinquished his role as chief executive to bring in Mr Robert Louis-Dreyfus from the Dun & Bradstreet market research group.

Mr Charles Scott, who worked with Mr Louis-Dreyfus at D&B, is joining Saatchi as finance director.

Mr Richard Dale, advertising anlayst at James Capel in London, said Saatchi had made a "clean sweep" in its restructuring programme and should be able to concentrate on revenue growth once the consultancies were sold and its borrowings reduced.

Saatchi began "a major cost control programme" in the second half. It has reduced central staff by 25 per cent and closed its corporate office in Washington. It also cut costs in the communications division – which includes advertising, public relations and design – by 5 per cent in the fourth quarter. This helped to increase trading profits from communications to £47.2m in the second half, double those of the first half and ahead of last year.

The cost of restructuring and rationalising the communications companies represented £29.5m of its exceptional items of £39.5m (£21.6m credit).

Saatchi has also reorganised its consultancy interests. The cost is expressed as an extraordinary item of £22m. This includes writing off £10.7m on its investment in the Information Consulting Group, which it has agreed to sell to McKinsey for $12m (£7.7m).

The consultancies were put up for sale in June but so far Saatchi has sold only three small companies. Analysts expect Saatchi to raise between £150m and £200m from the disposals, but it is said to be struggling to find buyers for the bigger businesses.

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Chrysler may sell aerospace operation

By Anatole Kaletsky in New York

CHRYSLER, the third largest US motor manufacturer, said yesterday it might sell its aerospace and defence electronics operations, estimated by some Wall Street analysts to be worth $600m to $700m.

The company suggested that management might mount a leveraged buyout for some or all of these businesses, the most important of which is Gulfstream Aerospace, a leading US manufacturer of business aircraft.

Mr Allen Paulson, Gulfstream's chief executive and a main board director of Chrysler, said he had temporarily resigned from these positions to avoid conflicts of interests, while he considered whether to make a bid.

Mr Paulson, who ran Gulfstream for many years before selling it to Chrysler in 1985, was thought to have been disappointed by Chrysler's recent decision not to pursue a proposed acquisition of Lear Jet, another business aircraft maker.

For Chrysler, the sale of Gulfstream and its other smaller aerospace businesses would reverse the diversification strategy of the mid-1980s, when it was generating excess cash flow, after recovering from near bankruptcy at the beginning of the decade.

The company said explicitly yesterday that it was thinking of selling Gulfstream and its defence electronics operations in order to "concentrate resources on the core car and truck businesses".

Chrysler insisted yesterday that the proposed sale was "not related to any cash needs." But analysts noted that it would mark Chrysler's second major cash-raising exercise this year.

In September, the company sold half its interest in Mitsubishi Motors for $600m, recording an after-tax profit of $310m.

In the next five years it will have to invest around $14bn on modernising its product line, although Mr Lee Iacocca, its chairman, has forecast "fiercely competitive" conditions in the US car market.

These factors could result in a cash squeeze, especially as Chrysler does not have the large European operations which are helping to sustain profits at Ford and General Motors, its US rivals.

Chrsyler is considering a push into the European market, based both on exports and a joint venture with Renault.

Ironically, Chrysler's purchase of Gulfstream in 1985 for $636m was largely funded by the sale of its European operations to Peugeot the following year.

Kingfisher turns the tables on Dixons with £568m bid

By Maggie Urry in London

BATTLE broke out in the British high street yesterday when Kingfisher, the retail group, turned the tables on Dixons by launching a hostile takeover bid worth £568m ($890m) for the electrical goods retailer.

In 1986, Kingfisher, then called Woolworth, fought off a £1.8bn bid from Dixons in a battle remarkable for the acrimony between the personalities involved.

Mr Geoffrey Mulcahy, chief executive of Kingfisher, said he telephoned Mr Stanley Kalms, chairman of Dixons, early yesterday and that the conversation was "extremely courteous." Mr Mulcahy said the bid was "certainly not revenge. We believe in doing things that are commercially sensible."

Dixons, however, said that the bid was "an opportunist attempt to deprive shareholders of the benefits of the longer term growth prospects of the company." It said the bid would be "strongly resisted."

The dramatic reversal in the fortunes of the two groups follows the sharp decline in the market for electrical goods where Dixons, which also owns Currys, is the market leader.

The squeeze on consumer spending from high interest rates has particularly hit retail sales of high-priced, household goods. In the electricals market there has been a rash of price-cutting and a lack of exciting new products to entice shoppers.

Kingfisher, through Comet, is the second largest player in the electrical market. It also owns the Woolworth variety-store chain, along with B & Q, the leading do-it-yourself retailer, and Superdrug, the market leader in the drugstore sector. Kingfisher has seen a marked revival since it was formed through the buy-out of Woolworth in 1982.

Mr Mulcahy described the bid as a strategic move which would give his company market leadership and enable it to restructure a large part of the electrical retailing sector into a "more efficient and profitable business." He said he did not expect the bid to be referred to the Monopolies and Mergers Commission.

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NMB Postbank prices shares at Fl 46.50 for partial privatisation

By Laura Raun in Amsterdam

A SHARE PRICE of Fl 46.50 ($23.20) was announced yesterday for about 30 per cent of the shares of NMB Postbank, the newly merged Dutch bank which is being partially privatised through a Fl 1.3bn international offering.

The 28m shares are the second largest equity offer and privatisation in Dutch history, following the Fl 1.5bn sale of one-third of DSM, the chemicals company, in September.

NMB and Postbank formally merged in October, forming the biggest bank marriage ever in the Netherlands. With total assets of Fl 163bn, the group ranks number four at home and among the top 25 banks in Europe.

The issue price was considered generally in line with market expectations, although hardly a generous discount to the closing price of Fl 47 the day before. NMB Postbank's share price closed at an unchanged Fl 47 yesterday, prompting market speculation that it was being supported.

About 46 per cent of the shares are already publicly traded and 24 per cent will remain in Dutch Government hands after the privatisation tranche.

Brokers and analysts expect the issue to be heavily oversubscribed by investors in the Netherlands and abroad, drawn by a record Fl 12m advertising campaign aimed in large part at Postbank's 6m account holders. Allocations will be announced on Monday.

NMB Postbank is seen by many as a promising partnership between two complementary banks with good growth potential and a solid financial position – pitched at an attractive price. NMB was the third largest commercial bank in the Netherlands with expertise in market niches such as asset trading. Postbank resulted from the 1986 merger of the postal giro system and the National Savings Bank.

The biggest challenge, according to many analysts, is marrying the government-owned Postbank with the more innovative and dynamic NMB.

The decision against a fully integrated merger has raised questions of how large the cost savings will be, since no more than 200 jobs out of 23,500 are expected to disappear.

Mr Wim Scherpenhuijsen Rom, chairman of NMB Postbank, insisted yesterday that "a merger is not a condition for synergy. Activities can be transferred between the two banks and they will share staff."

He sidestepped the question of whether NMB Postbank – which has predicted 10 per cent higher earnings in 1990 – would be less profitable than NMB, which has boosted net income much faster in recent years.

Admitting Postbank's sensitivity to interest rates, he insisted that it would now be able to offer new services such as securities and insurance broking and foreign currency loans.

About 60 per cent of the shares are being placed in the Netherlands, Belgium and Luxembourg, with private investors receiving preferential treatment. The other 40 per cent will be sold to institutional investors abroad.

The underwriting syndicate, which is being led by NMB Postbank itself, can use 2m of the maximum 28m shares to cover short positions and thus underpin the price in the after-market. The syndicate is taking a 3 per cent fee.

That's the wonder of Woolworth's revenge

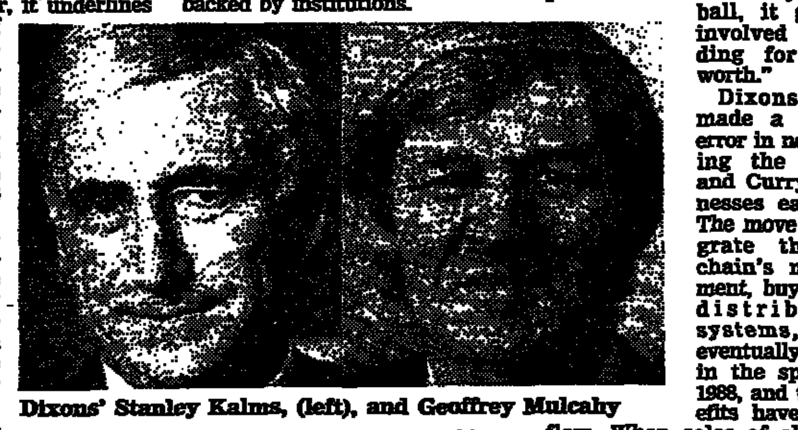
Maggie Urry explains how the UK stores group has risen to bid for its one-time predator

The amazing reversal of fortunes in the tale of Kingfisher and Dixons would provide a plot for the sort of paperback novel businessmen are supposed to read on long aeroplane journeys. In little more than three years the underdog has become the top dog and the biter has been bitten.

In the summer of 1986 Kingfisher – then called Woolworth – was fighting for its life against a bid from Dixons. It was one of the most hotly contested British takeover battles.

Yesterday's reversal of roles illustrates the contrasting fortunes of the two groups since then. In particular, it underlines the success of Kingfisher's strategy of diversifying away from the Woolworth variety stores – a strategy in its infancy at the time of the 1986 bid.

It also demonstrates how rapidly an acquisitive stock market favourite like Dixons can fall from favour when the trading cycle turns against it.



Dixons' Stanley Kalms, (left), and Geoffrey Mulcahy

Kingfisher's bid is clearly designed to give it market leadership in electrical retailing. But the battle launched yesterday has a long way to go. Dixons immediately dismissed it as opportunistic, and the bid may well be referred to the Monopolies Commission.

According to estimates by Verdict, the retail research group, the combination of Kingfisher's Comet chain, and Laskys – which Comet bought in October – with Dixons and its offshoot, Currys, would give a 26.4 per cent share of the UK electrical market. Mr Geoffrey Mulcahy, Kingfisher's chief executive, said yesterday: "We do not think this will be referred." He said his estimate of the combined market share was 22 per cent.

There would be no other chain with more than 1 per cent of the market, barring the electricity boards' showrooms and Rumbelows, Thorn EMI's loss-making chain which is rumoured to be up for sale.

The electrical retail market is currently in turmoil, with sales still falling under the weight of high interest rates, a lack of new products to excite interest, and overcapacity in the retail market causing savage price cutting.

But Dixons believes the sector will eventually return to growth as new technology brings in a wave of fresh electrical gadgets. It will ask why Kingfisher should get the benefit of this upturn.

Buying Dixons would allow Kingfisher to restructure the electrical retailing sector to its own advantage; rebuilding margins and taking out some excess capacity. When sales recover Kingfisher would enjoy substantial profits from the business.

In doing this it would be repeating the pattern it has adopted in other sectors since it began its move away from reliance on the tired old Woolworth variety store formula. In each chosen sector the aim has been to make itself the market leader.

Woolworth, formerly a quoted company controlled by an American parent, was bought out in 1982 by a management team backed by institutions.

The Woolworth chain had been run almost into the ground and the new owners began a strategy of revamping the Woolworth stores – concentrating on fewer lines – and building up other retail "brands". B&Q, its do-it-yourself business, had been acquired by the old Woolworth management – in a rare flash of genius – and is now been built into the market leader. Comet, the electrical retail chain, had been bought in 1984 and can now claim to be the leading out-of-town electrical retailer. , though the Dixons/Currys combination holds sway in the high street. In the past few years the group has also built up Superdrug into what is claimed to be the UK's biggest drugs stores chain.

But when the bid from Dixons came in 1986 this strategy had yet to produce significant results. Dixons, by contrast, was riding high. Beloved of the City analysts, the shares had risen sharply during 1985 and the early months of 1986. Currys had been acquired at the end of 1984 and Dixons' profits were bounding ahead. The consumer spending boom was raging, and sales of electrical goods were one of the main beneficiaries.

The bitterness of the battle was underlined within days of the bid being launched when Woolworth issued a writ against Mr Stanley Kalms, Dixons' chairman, claiming "injurious falsehood".

Luton Crown Court sent a security consultant to jail for putting a bug in a biscuit tin to tap the telephone of a man who had left Dixons to work for Comet. That incident took place after the bid had failed in July of 1986.

But the bid was not just about personalities. Much heat was generated through attacks and counter-attacks on each side's retail strategies.

The bid marked the start of Dixons' problems, and the end of Woolworth's. Dixons profits carried on upwards for a while. And it moved into international retailing by the acquisition of Silo, a US power retailer. As one analyst put it "Dixons took its eye off the ball, it got too involved in bidding for Woolworth."

Dixons also made a serious error in not merging the Dixons and Currys businesses early on. The move to integrate the two chain's management, buying and distribution systems, was eventually started in the spring of 1988, and the benefits have yet to flow. When sales of electrical goods started to slide – a time which Dixons has always pinpointed as the date of the stock-market crash in October 1987 – Dixons' UK retailing arm was in poor shape.

Analysts believe the bulk of the blame for Dixons' problems can be put on the market, rather than on Dixons management. "The management is just as competent as it was before the market fell," says one. "Dixons has not lost market share."

However, there is no denying the group's profits are still falling. After rushing upwards from pre-tax profits of £20.5m in 1983-84 to £102.6 in 1986-87, profits first stagnated, at £103.1m in 1987-88, then fell to £78.4m in the period to April 1989.

In September Mr Kalms told the annual meeting that sales in the UK had weakened yet further. Now analysts are guessing at profits of around £40m in the current year, but suggesting that the UK retail business will make a significant loss within that.

Meanwhile, Woolworth has been racing ahead. Profits, before tax and exceptional items, have risen from £56.8m in 1984-85 to £186.9m in the year to end January. Pictures in the 1989 accounts showed the directors positively beaming at their success. And while Mr Kalms' salary was falling, that of Mr Mulcahy, Kingfisher's chairman designate, has been rising.

INTERNATIONAL COMPANIES AND FINANCE

Bids for Bloomingdale's set to miss $2bn target

By Karen Zagor in New York

THE FIRST round of bids for Bloomingdale's, the prestigious US department store chain, is due tomorrow, and there are already reports the offered prices will fall short of Campeau's expectations.

Campeau Corporation, the highly-leveraged Canadian property and retailing group, put Bloomingdale's on the block in September to cut its huge debt burden and try to relieve its cash flow problems. At the time, Campeau had hopes of getting as much as $2bn for the Bloomingdale's chain. But analysts believe the price tag for the division is unlikely to be higher than $1.5bn, and it is possible that the bids will come in at under $1bn.

If no more than $1bn is offered for Bloomingdale's, it is likely that Campeau will take the division off the market and try to sell one or more of its other store divisions. Among the possible suitors for Bloomingdale's is Japan's Tokyu Department Store, part of the huge Japanese transportation, retailing and leisure group which has the same name. Three other Japanese store groups are said to be interested in Bloomingdale's.

Other contenders for the group include Mr Marvin Traub, Bloomingdale's chairman, and the sentimental favourite, and Mr Joseph Brooks, who bought the Ann Taylor women's clothing chain from Campeau. There is also said to be interest from Europe, Australia and Canada.

Investors are already skittish about Campeau's US holdings. Moody's Investors Services has downgraded its credit ratings for Campeau's Federated Department Stores and Allied Stores to Caa, "about one step away from bankruptcy" according to Ms Pam Stubing, an analyst at the New York credit-rating company. Dun & Bradstreet, the credit-rating company, has said it can no longer provide its clients with guidelines on shipments to the Campeau stores.

This may have an impact on shipments for spring sales, but should not effect important Christmas sales. Factors, the financiers of the apparel industry, who check and guarantee credit, and provide advances against accounts receivable, have been keeping a tight rein on deliveries to the Campeau stores since Bloomingdale's was first put on the market.

According to one analyst, a number of smaller vendors have already stopped shipping to the Campeau stores and some merchants are demanding cash on delivery.

"We are continuing in a very prudent manner," said Mr John Brookler, vice-president of marketing for Heller Financial, one of Campeau's factors.

Control Data names new chief

By Roderick Oram in New York

CONTROL Data has appointed Mr Lawrence Perlman chief executive, giving him the major challenge of reviving the struggling computer hardware and services group.

He succeeds Mr Robert Price who led the company through a hefty restructuring in the mid-1980s which has failed so far to pay off through a return to solid revenue and profit growth.

Mr Price, who remains chairman, had announced his intention in October to step down as chief executive. The company launched a search for a replacement, but it was widely assumed Mr Perlman, president and chief operating officer since last December, was the leading candidate by far. Mr Perlman, 51, joined the Minneapolis-based company in 1980 as its general counsel. He made his reputation as a manager by turning round imprimis, the company's heavily loss-making disk drive operation and one of its core hardware businesses.

Control Data sold Imprimis earlier this year to a competitor, Seagate Technology, a move for which Mr Perlman felt a "combination of sadness and vindication," he said yesterday.

The money from the sale has left Control Data in a stronger financial position and under no pressure to make further disposals. Now "we're making decisions from a strategic and not a financial perspective," Mr Perlman said.

He plans to accelerate the company's growth in the area of computer-based services. Once a leading supplier of hardware, notably supercomputers and disk drives, the company's main line of equipment now is Cyber mainframe computers aimed particularly at scientific and engineering applications.

He said he is seeking to instil three main characteristics in the company: high profitability; products and services which lead their markets and which are hard for competitors to challenge; and an employee oriented environment.

James Hardie earnings rise

By Bruce Jacques in Sydney

JAMES Hardie Industries, the diversified Australian building products group, has shown the benefits of a return to core businesses by hoisting earnings in the September half.

The company has declared a one-for-eight bonus issue and higher dividend after lifting operating profit 30 per cent to A$52.2m ($42.5m). The payout is up from 9 cents to 10 cents a share.

The result was achieved despite a sales dip of almost 30 per cent, reflecting the separate floating last year of the Spicers Paper group. Directors said sales excluding Spicer rose 14 per cent to $A644m in the half. Bonus shares will rank for dividend after the interim payment, scheduled for February 9 1990.

Hardie managing director, Mr David Macfarlane said the latest result represented a 23.5 per cent increase in earnings per share to 18.4 cents.

"This is the fifth consecutive year in which we have achieved a substantial improvement in operating profit for the first half of the year," he said. "This rise is the largest and reflects the benefits of restructuring our operations."

● Australian stock markets also continued to mark down shares in Bond group companies, with the flagship Bond Corporation down 6 cents to 15 cents amid reports that the Western Australian State Government Insurance Corporation may launch wind up proceedings against the company today. Bond Media shares slipped 3 cents to 12 cents, just 2 cents above the 10 cents-a-share price implied in the proposed offer for the group from Mr Kerry Packer. Bell Resources shares fell 2 cents to 45 cents, with Friday looming as the next deadline for the Bond group to formally begin its brewery sale to Lion Nathan of New Zealand.

CanPac to swallow 'poison pill' and take property arm public

By Robert Gibbens in Montreal

CANADIAN Pacific, a subject of takeover speculation this summer, is taking steps to thwart any unfriendly suitor. The company will take its C$4bn ($3.5bn) property arm, Marathon Realty Company, public and will itself swallow an elaborate "poison pill."

Mr William Stinson, president, said he did not know of any predators, but added that Marathon might also adopt a shareholders' rights plan.

CP owns 100 per cent of Marathon. Under the plan it will retain 20 per cent ownership and distribute 80 per cent of Marathon's stock to current CP shareholders. The distribution will be one-for-one, and at no cost.

Marathon stock will then be listed on the Canadian exchanges. This will allow CP holders to trade the shares if they wish and provide an independent market valuation.

Marathon's huge Canadian land holdings are being developed at a faster pace and some may be sold.

It's portfolio includes 35 office buildings totalling 11m sq ft of leasable area and 30 shopping centres totalling 13m sq ft. It also has vast land holdings and substantial industrial properties.

Mr Stinson said the present market value of CP shares seriously under-values the Marathon assets. The distribution will reflect true values more

William Stinson: not aware of any predators in the market

effectively. The distribution will take place in May 1990, if shareholders approve the plan at the next annual meeting on May 2.

CP said the book value of Marathon's assets was about C$2.1bn, but internal estimates indicated that its current market value exceeded C$4bn.

With CP's own poison pill, each CP shareholder will be entitled to buy additional shares at a 50 per cent discount to market if an unwanted suitor buys 10 per cent or more of the CP equity.

The plan would not require the votes of Power Corporation of Canada, which, through a previous standstill agreement, still in effect can own up to 15 per cent of CP's shares.

US broker launches East bloc risk cover

By Patrick Cockburn

FRANK B HALL, the US insurance broker, has introduced a $400m political risk insurance facility for Western companies investing in the Soviet Union and Eastern Europe.

Mr Donald Bell, chairman and chief executive of Frank B Hall, says it is the first political risk insurance programme designed for US direct investments in a particular geographical or political area.

He said the programme, underwritten at Lloyd's through the broker, Steel Burrill Jones North America, is in response to the political changes going on in the area.

There are now some 1,100 Western companies, including 100 from the US, investing in the Soviet Union and Eastern Europe. The number of joint ventures with US partners grew from 16 to 97 in 1989.

Cover for any single investment is limited to $100m. It includes general political risks such as strikes and confiscation as well as Western trade restrictions.

Premiums are likely to be 1 to 1.5 per cent of the assets at risk.

The Soviet Union has been seeking with some success to attract Western joint venture partners since 1986. This has created interest among Western companies but they are wary of the lack of a definite legal framework and fear a political backlash against liberalisation.

A further problem is that Soviet and East European governments often see joint venture manufacturing plant as being orientated towards hard currency exports.

Western companies look for access to the local market and a proportion of profits in hard currency.

Huffington to sell gas field share for $1bn

By John Murray Brown in Jakarta

A $1BN STAKE in an Indonesian gas field is up for sale following the announcement last week that Mr Roy Huffington, the Texan millionaire, is selling his privately-owned company, Huffco.

The sale, being handled by Goldman Sachs of New York, includes a 20 per cent stake in the Bontang gas production contract in East Kalimantan in partnership with Union Texas and Ultramar, of the UK.

The production contract on the so-called Sanga-Sanga block which expires in 1998 is expected to attract interest from oil majors and Japanese gas buyers. Indonesia ships around 20m tonnes of liquefied natural gas a year under long-term contracts with utilities and gas companies in Japan and South Korea.

Shearson Lehman coy over Perelman buy-in report

By Janet Bush in New York

SHEARSON Lehman Hutton declined comment yesterday on a newspaper report that Mr Ronald Perelman, chairman of Revlon Inc, was in discussions about making a substantial investment in the Wall Street securities house, 61 per cent owned by American Express.

The New York Times reported yesterday that Mr Perelman was discussing pouring hundreds of millions of dollars into Shearson in exchange for a large stake in the brokerage.

The report quoted sources as saying that he would be able to obtain about 20 per cent of the stock, or about 17.5m shares, if he exercised all his options and that he would have the right to buy the stock in two transactions from American Express. The New York Times report also said that Shearson was said to be examining other deals, including a possible injection of capital by American Express in exchange for a sale of assets to the company.

There was some scepticism about the possibility of American Express negotiating with Mr Perelman about him taking a substantial stake in Shearson.

It has been known for some time that American Express has wanted to reduce its stake in the brokerage from 61 per cent to below 50 per cent. There have been persistent reports that American Express has been uncomfortable with its exposure to financial market vicissitudes through its majority ownership of Shearson.

Nevertheless, analysts who follow Shearson Lehman expressed the view that a further split in the ownership of the brokerage may not be thought desirable. Apart from the majority stake held by American Express, Nippon Life Insurance Company of Japan holds 13 per cent.

Some contended that Mr Perelman may not be an unequivocally desirable new investor. When he attempted to buy a large block of shares in Salomon Brothers in 1987, Salomon persuaded Mr Warren Buffet, the highly respected Omaha, Nebraska investor, to take a large, defensive stake to fend off Mr Perelman.

Two Swedish banks set to announce merger

By **John Burton** in Stockholm

SWEDEN'S PKbanken and Nordbanken yesterday requested that trading of their shares on the Stockholm bourse be suspended, in anticipation of an expected announcement today that the two will merge.

Officials at state-controlled PKbanken, the country's third largest commercial bank, refused to comment on reports that the bank has made a bid valued at between SKr4bn ($628m) and SKr5bn for fifth-ranking Nordbanken, but the boards of both banks were meeting in extraordinary sessions last evening.

The purchase of Nordbanken by PKbanken would be the latest in a series of recent takeovers of regional banks by the country's top banks.

The acquisition of Nordbanken, Sweden's most profitable bank, would strengthen PKbanken, which is the least profitable.

Total assets of the two would amount to SKr265bn, leaving the new bank in third position behind Svenska Handelsbanken. Svenska bid for Skanska Banken just two weeks ago, and thereby stands to increase its total assets to around SKr300bn.

Nordbanken was formed in 1986 as a result of a merger between two northern Swedish banks, Sundsvallsbanken and Uplandsbanken.

Mr Rune Barneus, its president and a former PKbanken vice-president, has boosted profitability levels over the past two years by undertaking a wide-ranging cost-cutting programme and a tougher stance on credit losses.

Nordbanken's biggest shareholders are the investment company Custos, Oobab Trading, and the two insurance companies Skandia and Trygg-Hansa.

PKbanken, which is 67 per cent owned by the Swedish government, has suffered from sluggish earnings with a profit margin of 15.8 per cent during the first eight months of 1989.

Most of the increase in profit during this period, which rose by 18 per cent to SKr2.28bn, was due to the acquisition in June of the state-owned Investeringsbanken, which specialises in finance for small concerns.

That acquisition was part of PKbanken's strategy to expand away from its traditional customer base of small savers and lending to local governments and housing authorities. It also bought Sweden's largest brokerage house, Carnegie, last year to strengthen its securities operations.

GAN may buy UK insurer

By **George Graham** in Paris

GROUPE DES Assurances Nationales (GAN), the French state-controlled insurance company, is in discussions which could lead to the acquisition of General Portfolio, the UK insurer.

GAN yesterday confirmed only that it was in advanced talks with General Portfolio.

It is understood, however, the deal is to be put to GAN's board of directors next week, and the acquisition could put a value of around FFr2bn ($328m) on General Portfolio.

GAN is the smallest of the three French state-owned insurance groups, with net profits of FFr1.95bn last year on total premium income of FFr23.5bn, and has until now been less eager than some other French groups to plunge into large foreign acquisitions.

Within France, it has taken control of Crédit Industriel et Commercial (CIC), the state sector federation of regional banks, and is seeking to build synergies between the bank and insurance sectors. Abroad, GAN has tended to buy small companies or seek partnerships with other large insurers, usually taking a minority stake.

Mr François Heilbronner, GAN's chairman, has in the past made it clear that he would not seek to acquire a company as big as GAN.

"Our idea is to be present on each major insurance market with a presence that is big enough to be profitable but not too big to control. If we are talking with a big company, we prefer partnership to acquisition – better that than pay too much for a control that you cannot exert," Mr Heilbronner said before news of talks with General Portfolio emerged.

French detail chemicals change

By **William Dawkins** in Paris

THE French Government yesterday gave its first official confirmation of the outlines of the reorganisation of the state-owned chemicals industry.

Atochem, the chemicals offshoot of the oil group Elf-Aquitaine, will take control of the plastics and fertiliser businesses involved in the reshuffle, while speciality chemicals will be moved to the smaller oil group, Total, Mr Roger Fauroux, the Industry Minister, told the National Assembly.

Earlier, he predicted the final details of the reorganisation, designed to make the French state-owned chemicals industry more competitive, would be tied up by next week.

"Each of the major chemicals companies in our country represents half of the activities of each of the major British or West German companies," said Mr Fauroux. "If we remain in this state, in five years they would instead represent a quarter and would be practically pushed out of the sector," he said.

Among the main details still to be settled are the prices to be paid for the companies being transferred, say officials.

Trading in Charterhall shares is suspended

By **Ray Bashford** in London and **Bruce Jacques** in Sydney

TRADING in the shares of Charterhall, the investment company headed by Mr Russell Goward, was suspended yesterday as the group's Australian parent held an emergency meeting with its banks.

Westmex, which controls 60 per cent of the Charterhall's capital, told the banks it was considering a possible partial or total takeover, a "substantial" injection of new capital or the disposal of non-core assets as measures to relieve the financial pressure.

The Australian parent's shares have fallen 60 per cent during the past week, threatening to place it in breach of agreements with banks for loans of $A311m (US$242m).

The 35-year-old Mr Goward took control of Charterhall in 1986 and after selling its oil interests established a down market shoe retailing and clothing manufacturing business.

He paid £27.2m (US$42m) for Corah, the Marks and Spencer supplier earlier this year and last August bought Textured Jersey for £8.7m. Charterhall is holding a £5m loss on its stake in A. Goldberg, the Glasgow retailer, and has this and at least three other shareholdings in UK listed companies up for sale.

Mr Goward requested suspension of trading in Westmex shares in Sydney yesterday after they had reached an all-time low of 34 cents.

However, Australian stock exchanges refused the suspension request, and the shares subsequently recovered to 38 cents, down 2 cents on the day.

Consolidation of Charterhall has weakened the Westmex balance sheet, which carries more than 40 per cent of its stated $A582m worth of assets as intangibles. Inclusion of Charterhall also more than tripled the company's debt to $A311m, lifting gearing from 141 to 185 per cent.

The group's largest remaining bankers are the National Australia Bank, Westpac Banking Corporation and the State Bank of New South Wales.

Chips are down for Perkin-Elmer

Alan Cane on fears for the future of the US semiconductor industry

THERE are growing fears in the US that Perkin-Elmer, a medium-sized instrument manufacturer, will be allowed to sell its semiconductor equipment division to a foreign, almost certainly Japanese, competitor.

The sale highlights the profound disquiet over the future of the American semiconductor industry.

The US is already almost entirely dependent on overseas suppliers for the raw materials of the semiconductor industry; it virtually abandoned the memory chip business to the Japanese in the fierce chip price wars of the early 1980s.

The concern is that if its decline in the semiconductor business is allowed to continue, the entire US electronics industry – and, by implication, industries such as defence which are heavy users of semiconductors – will be at the mercy of foreign suppliers.

The potential sale of the Perkin-Elmer unit is also seen as a test case of the Bush Administration's policy towards foreign acquisitions in the high technology sector and as an important indicator of the Government's stance on US competitiveness.

Dr Robert Noyce, president of the US semiconductor company Sematech and co-inventor of the silicon chip said: "The time for action is now. The sale to a foreign competitor of a small American company that specialises in certain key materials or equipment may not seem important, but how many such firms do we have to lose before it becomes important?"

Perkin-Elmer, best known as a manufacturer of high quality analytical instruments, is one of the few remaining US companies making machine tools used in the manufacture of microchips.

A decade ago its projection printer, a machine for imprinting electronic circuit patterns on to a wafer of silicon, was the workhorse of the industry. It was indisputedly the world leader in semiconductor production equipment.

Today, the position is reversed. Three Japanese companies, Nikon, Tokyo Electron and Advantest lead the world rankings with revenues of $521m, $508m and $385m respectively. They are ahead of the US companies Applied Materials and General Signal while Perkin-Elmer has fallen to eighth place with revenue of only $205m.

SPENDING ON NEW PLANT AND EQUIPMENT BY SEMI-CONDUCTOR CHIP PRODUCERS* $m

	1980	1981	1982	1983	1984	1985	1986	1987	1988
US	1,347	1,233	1,131	1,499	3,139	2,065	1,445	1,976	2,746
Japan	632	834	921	1,768	3,771	3,233	1,780	2,343	4,485
W. Europe	365	390	370	408	763	689	759	814	788

* Does not include captive producers of semiconductor devices. Source: Dataquest, Inc.

Its decline raises important questions about the wisdom of short-term thinking in fast moving and investment-hungry industries like the semiconductor business, and about government support for commercial companies operating in strategic business areas.

Perkin-Elmer is no longer the world leader in semiconductor production equipment because it failed to invest heavily enough in keeping up with advances in technology.

In 1984, it was at its peak through the success of the projection printer, but its competitors were moving to wafer "steppers," a more advanced photolithographic tool which made it possible to print more complex circuitry on the chip surface.

The semiconductor industry was going through a periodic but particularly severe downturn and Perkin-Elmer effectively lost out on a whole generation of production equipment, allowing US and Japanese competitors to take away its lead.

Four years ago, it designed and began to develop an advanced new system "MicraScan" in a bid to take a leading position.

Experts agree the system is exactly what the semiconductor industry needs to manufacture 16 and 64 megabit memories in the 1990s. As a measure of comparison, the most advanced computer systems today are using four megabit memories.

International Business Machines (IBM), the world's largest manufacturer of microchips, has a powerful interest in a healthy US semiconductor production equipment industry, and has contributed to the development of MicraScan and contracted to take a number of the machines.

According to the US market consultancy VLSI Research, MicraScan has a three to four year lead on all the competition, including the Japanese. The system will cost $4m each and a typical semiconductor plant will need 10 to 20. Today's wafer steppers produce revenues of about $3,600 an hour; the MicraScan should produce $15,000 an hour.

It is clear, therefore, why leading Japanese manufacturers Canon and Nikon should be interested in acquiring both the MicraScan technology and Perkin-Elmer's semiconductor equipment marketing channels in the US.

Perkin-Elmer decided to get out of the business when it seemed poised to capitalise on technological mastery, for a variety of reasons.

First, it makes scientific instruments such as atomic absorbtion spectrophotometers, but never achieved success with subsidiary activities.

Second, it is unlikely to show an adequate return on its investment. The development of MicraScan has cost about $100m and an additional $20m to $50m is needed to refine the product.

Third, it is not convinced it has had or will receive adequate support from the US semiconductor industry.

IBM has been active in supporting Perkin-Elmer's efforts to find a domestic bidder for the business but without apparent success. General Signal, the leading US semiconductor equipment supplier and KLA Instruments are believed to have made bids but neither was acceptable to Perkin-Elmer, according to reports.

The Government position remains unclear. There is a climate of opinion in the White House which rejects anything smacking of industrial policy or of picking winners and losers.

It is an attitude which is anathema to the semiconductor industry: "If this vital industry is allowed to wither away, the nation will pay a price measured in millions of jobs across the entire electronic field" Dr Ian Ross, chairman of the National Advisory Committee on Semiconductors has warned President Bush.

Mixte sells Cassegrain

By **George Graham**

COMPAGNIE de Navigation Mixte, the French conglomerate which is currently the target of a FFr26bn ($4.27bn) takeover bid from the Paribas investment banking group, has sold its Cassegrain tinned vegetables subsidiary to the Bonduelle foods group, for around FFr580m.

Bonduelle has already expanded its activities in Europe, with positions in the West German, Belgian and Dutch vegetables markets.

The Cassegrain activities have been among the weakest of Navigation Mixte's empire. Sales fell last year by 1 per cent.

Air Canada in GPA plan

By **Robert Gibbens** in Montreal

AIR CANADA, the national airline privatised early this year, will sell part of its 15 per cent fully-diluted holding in Shannon-based GPA Group, the world's biggest aircraft leasing company.

Air Canada issued a statement following reports that it would announce the sale of all its shares in GPA, for around C$600m (US$517m) on December 14. Air Canada confirmed it would sell part of its holding but would remain "a substantial shareholder" in GPA.

Air Canada would apply the proceeds to reduce its more than C$1bn debt and support its re-equipment programme.

Saatchi's trend-bucking comes to an end

Alice Rawsthorn reports on reactions to the advertising agency's end-of-year results

A young account director at Saatchi & Saatchi's London advertising agency sums up his feelings: "All we have ever known is success. For as long as I have worked here we have been the biggest and best agency in town. Suddenly the group is in trouble and no one can really believe it is happening."

At one o'clock yesterday afternoon all Saatchi's employees found out exactly how much trouble their parent company is in, when Saatchi & Saatchi's end-of-year results were published in London.

Saatchi, once one of the stars of the stock market, announced an overall loss – after tax, exceptional and extraordinary items – of £58.5m for the year to September 30 against profits of £75.1m last year. In recent months its shares have waxed and waned on rumours of everything from hostile bids to senior staff resignations.

While the group's fortunes have fluctuated on the stock market, the original Saatchi agency on Charlotte Street in London has seemed to go from strength to strength. Week after week it has topped the new business table in Campaign magazine, and it has scooped more prizes than any other agency at the advertising award ceremonies.

The London agency, founded 19 years ago by Charles and Maurice Saatchi, who are brothers, is the jewel in the company's corporate crown. It has dominated London advertising for years and is still one of the most profitable parts of the Saatchi empire.

But behind the facade of new accounts and award accolades, the troubles of the Saatchi group are taking a toll on the agency.

"Morale is low," said one executive. "All we have heard for months is 'Cut the cost base.' There are rumours of redundancies. Everyone is frightened."

Most of the London advertising agencies have had a difficult year.

The slowdown in consumer spending and pressure on corporate profits has forced many advertisers to reduce budgets or cancel campaigns. Some agencies have been forced to shed staff this autumn. D'Arcy Masius Benton & Bowles, one of the larger companies, recently announced almost 30 redundancies.

The difference for Saatchi is that, in the past, it has been able to sail through the industry's slumps.

"We have had years of bucking trends," said a long-serving employee. "We are used to reading about redundancies at other agencies and saying: 'Hey, we are still taking people on.' We are not very good at standing in the mire with everyone else."

It is difficult for employees to gauge exactly how many jobs have been lost at the agency, which is structured in a decentralised system of account groups. The consensus is that there have been about 50 redundancies this year.

'We are not very good at standing in the mire with everyone else'

"As the end of the financial year approached, there was more and more pressure to cut costs and squeeze as much profit as we could out of the agency," said one senior executive. "One of Saatchi's strengths has been its paternalism. I used to be able to look people in the eye and say that we were the best employer around. The saddest thing is that I cannot say that any more."

The agency has also postponed its customary October salary increases until January. In the past it has reviewed salaries on a quarterly basis, with the main increases awarded in October, after the end of the financial year.

This year a memo arrived in mid-October saying that, in future, there would be one increase in January. "It was all dressed up as an efficiency measure," said one executive. "And they did sugar the pill by giving us our Christmas bonuses. But we all knew it was a way of squeezing costs. Everyone was furious."

The disillusion intensified when Saatchi appointed Mr Robert Louis-Dreyfus as chief executive in October. "Most of us found out about it when we read the newspapers the next day," said one employee.

The critical question for the Saatchi group is how much the uncertainty over its future – and the cost cutting – is affecting the agency's performance.

There is no sign that the group's problems have affected client confidence. So far Saatchi has not lost any major accounts and it has continued to win new business. But the success of an advertising agency – like that of any other people business – hinges on the confidence and commitment of its workforce.

One of Saatchi's greatest strengths has been its culture of success.

"From the very beginning Saatchi was built on an absolute conviction that we were the best agency around," was how one employee put it.

"I joined this agency because it was the best, and everyone in the industry knew it," said another.

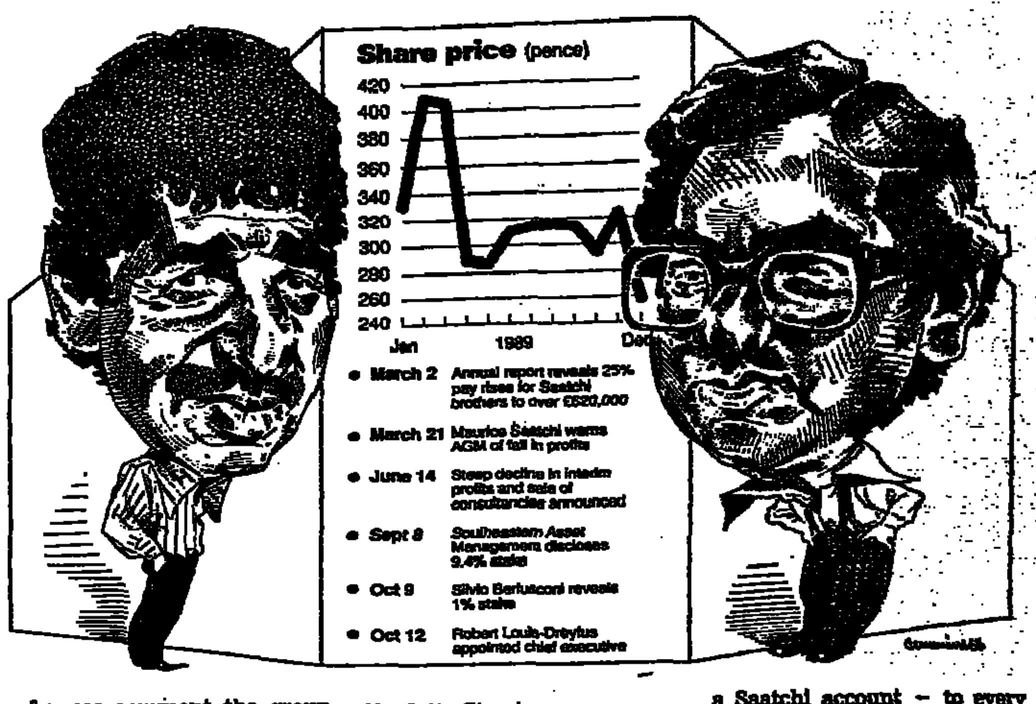
Some Saatchi executives are now concerned about morale. "Every year the agency has been set absurdly high profit targets," said one. "The difference is that in the past people have knuckled down and done everything they could to meet them. Now people are saying 'Forget this. What do they [the holding company] ever do for us?'"

Mr Roy Warman, chief executive officer of Saatchi's communications division, said: "We do recognise that the kind of press comment the group has attracted does not make life easy for our operators. But despite the group's problems, the operations are still going from strength to strength."

Saatchi has staged several morale-raising exercises in recent weeks. There was a huge Christmas party for which Alexandra Palace in North London was converted into a stage set resembling Charlotte Street.

Last month, Marketing Week magazine published a poll of leading advertisers in which Saatchi was voted the best all-round agency. The agency sent a copy of the article and a bottle of Lanson champagne – a Saatchi account – to every employee. It was accompanied by a memo. "We consider this to be the ultimate accolade at a time when the group is facing considerable difficulty," it read.

Yesterday the full extent of its difficulties were revealed in Saatchi's results.



UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY- Indices of industrial production, manufacturing output (1985=100); engineering orders (£ billion); retail sales volume (1985=100); retail sales value (1985=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value*	Unemployed	Vacs.
1988							
2nd qtr	109.2	112.4	32.8	118.7	122.7	2,364	[illegible]
3rd qtr.	110.5	115.6	29.7	120.1	126.9	2,228	244.3
4th qtr.	110.2	116.6	29.5	121.0	135.4	2,101	241.4
December	109.2	117.2	32.3	121.1	161.9	2,037	237.8
1989							
1st qtr.	109.5	118.6	33.2	121.5	126.4	1,962	[illegible]
2nd qtr.	108.7	119.0	34.8	122.3	132.7	1,804	222.4
3rd qtr.	110.6	119.6	35.5	121.7	134.7	1,742	[illegible]
January	109.7	118.0	35.4	119.5	124.3	[illegible]	[illegible]
February	109.3	118.3	35.6	122.1	129.5	1,949	[illegible]
March	108.5	118.2	36.7	122.6	127.4	1,917	224.3
April	108.7	118.1	34.7	120.9	131.5	[illegible]	222.2
May	108.1	119.7	34.1	124.5	132.4	1,836	219.5
June	109.3	119.2	34.0	121.6	133.9	1,816	224.4
July	109.2	119.7	34.7	121.6	136.6	1,767	[illegible]
August	111.4	120.2	35.2	121.5	134.0	1,745	219.5
September	110.5	118.9	35.5	122.3	133.9	1,694	220.7
October				121.5	140.2	1,674	214.6

OUTPUT- By market sector; consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1985=100); housing starts (000s, monthly average).

	Cnsmer. goods	Invest. goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1988							
2nd qtr	111.7	108.3	108.5	109.9	120.1	101.8	22.3
3rd qtr	113.7	113.5	108.8	114.9	123.5	102.1	20.4
4th qtr	113.5	115.3	108.7	116.1	124.1	101.5	18.4
December	114.5	115.6	106.6	116.0	128.9	103.2	14.2
1989							
1st qtr.	114.8	118.3	104.2	116.1	130.2	99.5	17.6
2nd qtr.	116.9	119.6	102.2	118.7	122.3	98.2	18.8
3rd qtr.	115.9	122.5	104.5	120.5	122.7	96.9	
January	114.4	118.3	104.4	119.0	137.0	100.0	15.5
February	114.2	118.1	104.1	118.9	129.0	100.5	18.4
March	116.7	117.8	104.0	118.0	125.0	100.5	18.8
April	116.9	115.7	104.9	116.0	130.8	100.0	18.4
May	118.5	119.3	100.8	120.9	123.0	100.0	19.8
June	115.7	121.3	100.7	120.0	117.5	96.0	17.7
July	116.2	123.1	102.4	122.0	120.0	100.8	15.5
August	114.5	124.9	105.5	121.5	122.0	98.8	14.9
September	114.2	128.4	105.5	120.0	126.0	98.0	13.8

EXTERNAL TRADE- Indices of export and import volume (1985=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1985=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn
1988							
1st qtr.	107.2	119.4	-4,608	-3,061	+728	97.5	44.64
2nd qtr	114.9	129.2	-4,530	-2,761	+865	97.1	46.52
3rd qtr	112.8	134.5	-5,724	-3,418	+627	97.3	52.45
4th qtr.	107.6	134.7	-6,495	-5,385	+580	96.7	51.60
December	109.5	133.2	-1,816	-1,449	+152	97.9	51.69
1989							
1st qtr.	112.3	140.5	-5,964	-4,761	+258	98.7	50.45
2nd qtr.	113.4	140.2	-5,870	-4,903	+294	96.9	43.87
3rd qtr.	116.6	146.2	-6,717	-5,817	+301	96.2	42.80
January	117.1	145.1	-2,047	-1,846	+115	98.9	51.71
February	106.1	138.6	-2,224	-1,823	-8	98.6	51.66
March	116.3	136.2	-1,703	-1,302	+141	98.7	50.46
April	110.9	140.0	-2,193	-1,871	+116	96.9	47.28
May	115.6	138.4	-1,728	-1,403	+57	96.5	46.05
June	117.7	142.1	-1,951	-1,629	+122	96.9	43.67
July	116.1	148.9	-2,555	-2,258	+75	96.2	43.63
August	113.6	140.7	-2,244	-1,944	+143	96.6	43.21
September	126.0	149.3	-1,918	-1,618	+82	96.0	42.55
October	129.2	142.9	-1,844	-1,544	+152	96.3	39.80
November							38.77

FINANCIAL-Money supply M0, M2 and M4 (annual percentage change); bank sterling lending to private sector; building societies' net inflow; consumer credit†; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M2 %	M4 %	Bank lending £m	BS inflow £m	Cnsmer. credit† £m	Base rate %
1988							
2nd qtr	6.6	14.6	16.8	+22,368	4,173	+1,027	9.50
3rd qtr.	7.7	18.8	16.5	+22,482	3,162	+986	11.50
4th qtr.	7.7	18.9	17.6	+19,686	3,166	+686	12.75
December	7.5	18.9	17.6	+7,613	819	+269	13.00
1989							
1st qtr.	6.7	14.7	18.1	+21,152	2,661	+694	13.00
2nd qtr.	6.0	11.3	18.6	+20,310	1,735	[illegible]	14.00
3rd qtr.	5.3	9.9	17.4	+26,145	2,285	+662	14.00
January	7.4	16.5	18.0	+7,311	784	+753	13.00
February	4.6	15.5	18.4	+5,043	1,064	+203	13.00
March	6.1	14.7	18.1	+8,295	813	+339	13.00
April	5.8	14.5	17.9	+6,322	1,176	+341	13.00
May	6.2	13.6	18.1	+6,419	713	+471	14.00
June	5.9	11.3	18.6	+7,569	-183	+186	14.00
July	6.2	10.1	18.5	+7,743	546	+248	14.00
August	6.1	10.1	17.3	+7,858	621	+389	14.00
September	4.5	9.9	17.4	+10,448	818	+74	14.00
October	5.2	8.9	17.2	+5,202	704	+174	15.00
November							15.00

INFLATION-Indices of earnings (1985=100); basic materials and fuels; wholesale prices of manufactured products (1985=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931 =100); trade weighted value of sterling (1975=100)

	Earnings	Basic matls.*	Whsale. mnfg.*	RPI*	Foods	Reuters* cmdty.	Sterling
1988							
1st qtr.	96.4	95.9	111.6	103.7	103.5	1,747	75.3
2nd qtr	98.7	97.2	112.6	106.2	104.6	1,817	77.6
3rd qtr.	100.8	98.8	113.9	106.8	104.7	1,802	75.9
4th qtr.	104.1	100.1	115.2	109.9	105.7	1,857	77.5
November	103.7	99.5	115.2	110.0	105.7	1,868	77.1
December	106.9	102.6	115.4	110.3	106.5	1,921	79.9
1989							
1st qtr.	105.4	102.8	116.8	111.7	107.8	1,874	97.7
2nd qtr.	109.0	104.4	118.2	114.3	110.2	2,015	93.6
3rd qtr.	110.0	103.1	119.5	116.0	110.7	1,912	91.7
January	104.2	104.9	115.4	111.0	107.4	1,900	97.3
February	104.8	101.9	116.6	111.8	107.7	1,864	97.4
March	107.3	102.4	117.2	112.3	108.2	1,898	95.9
April	107.3	103.8	117.8	114.3	109.6	2,016	95.5
May	107.5	104.7	118.3	115.0	110.3	2,016	94.3
June	109.1	104.7	118.8	115.4	110.7	2,027	91.1
July	110.3	102.7	119.0	115.5	110.1	1,940	92.2
August	109.1	102.7	119.5	115.8	110.6	1,902	91.9
September	110.7	102.9	120.0	116.6	111.3	1,895	91.5
October		104.3	120.5	117.5	112.4	1,868	88.7
November						1,883	87.9

*Not seasonally adjusted

†Net changes in amounts outstanding, excluding bank loans.

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL APPOINTMENTS

Perrier appoints international marketing director

SOURCE PERRIER, of France, the world's largest producer of mineral water, is to switch Mr Peter Thomas to a newly created post of international marketing director in February.

Mr Thomas, 35, has been director of marketing at the Perrier (UK) Ltd arm since 1986. He joined Perrier in 1985 as marketing manager after previous service at PepsiCo.

The mineral water market has experienced considerable growth during his four years with Perrier (UK), and turnover at this subsidiary has jumped from £7.5m to over £50m in this period.

In his new role, Mr Thomas will focus in the short term on strategic issues facing the Perrier brands in important countries across Europe and the Far East, plus strengthening the group's international promotional and sponsorship activities. A successor is to be appointed for Perrier (UK).

Source Perrier said that 1989 has been a boom year for Perrier (UK) and for Perrier worldwide, and that the new appointment reflects the group's confidence in the enormous potential and dynamism of the bottled water market.

Moore Corp chairman to retire

By Robert Gibbens in Montreal

MR JUDSON Sinclair is retiring as chairman of Moore Corporation, the Toronto-based leading international business forms manufacturer.

He has served 42 years with the company and will become an honorary director.

Mr Keith Goodrich, already president and chief executive, will also assume Mr Sinclair's position. Mr Joseph McArthur, chief financial officer, has been named in addition a director and vice chairman.

The changes are effective from the start of the new year.

LAC Minerals chief becomes BIG chairman

THE New York-quoted Bond International Gold said that Mr Peter Allen, president and chief executive of LAC Minerals, the Toronto-based gold mining parent, has been appointed chairman of BIG following the resignation of Mr Alan Bond, the embattled Australian entrepreneur who recently sold his 65 per cent stake in BIG to LAC.

Besides Mr Bond, six directors resigned and were replaced by Mr Allen and four other new directors elected to the board. Three of the previous directors will remain, and BIG's board will be reduced from 10 members to eight.

* * *

BURNS FRY, one of Canada's leading full service investment dealers, named Mr John MacNaughton company president and chairman of the executive committee. Mr Latham Burns and Mr D.K. Johnson were made vice chairman.

The company is 30 per cent-owned by Security Pacific, the California-based banking group, which could boost its stake to about 50 per cent within a year or so.

Mr MacNaughton had been president and chief executive of two Security Pacific units. Mr Burns had been chairman of Burns Fry's executive committee and Mr Johnson had been the company's president.

Burns Fry is increasing its executive committee to 16 from 14 and raising the number of representatives of Security Pacific to four from three.

* * *

EMERSON Electric, the big US electricals group, named Mr Albert Suter, formerly an executive vice president, to serve as president, chief operating officer and a director.

Mr Suter, 54, succeeds Mr James Hardymon, 55, who resigned after 28 years with Emerson to "pursue other opportunities."

● Textron, the US conglomerate, soon announced that Mr Hardymon has been appointed as its president and to a new post for the company of chief operating officer, effective from January 1.

As president, Mr Hardymon succeeds Mr B.F. Dolan, who will remain chairman and chief executive. Mr Hardymon will be on the Textron board.

* * *

MR WILHELM Borgmann, executive board vice chairman at West Germany's Continental, the world's fourth largest tyre group, has taken over as president and chief executive officer at General Tire, Continental's US unit based in Ohio.

He succeeds Mr Gilbert Neal, who took early retirement.

Philippines investors fear huge drop in share prices

By Deborah Hargreaves

AMID unrest in the Philippines, investors are nervously awaiting the opening of the Manila Stock Exchange to see whether share prices plunge. The exchange has been closed since last Thursday, as rebels control part of the central business district of the city.

Some fund managers expect share prices to tumble by more than 30 per cent when the exchange opens. In the meantime, the country funds that were set up just months ago to track the performance of the Manila exchange are suffering from the same investor concern.

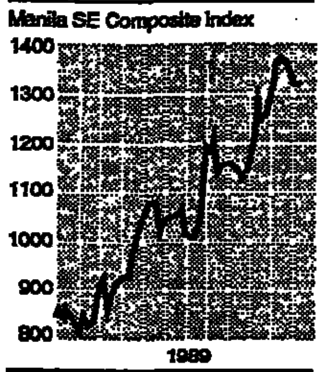
Three country funds have been set up this year as investors hoped that the stable political situation in Manila would catalyse strong economic growth. And with ironic timing, Nomura launched its First Philippine fund a month ago in a blaze of publicity about the country's long-term potential for overseas investors.

Country funds give foreign investors access to a market that may be difficult for them to penetrate alone. The Philippines has various restrictions on the stocks foreigners can buy – for example, they cannot buy banking stocks – and it can be difficult for them to get to grips with the Philippines exchange.

Similarly Banque Indosuez, the banking arm of France's Groupe Suez, launched a $50m Manila fund in September, and Jardine Fleming Investment Management launched its JF Philippines fund.

Philippines

Manila SE Composite Index



Both the Manila fund and the JF Philippines fund, which are listed on the London Stock Exchange, are trading at discounts to their offer price, although Nomura's fund continues to be at a premium. It is not unusual for country funds to trade at wildly volatile premiums and discounts, but if investors lose confidence in the Philippines Government, the value of shares in the funds could plummet.

Shares in the Manila fund were trading at an average price of $10.75 at the end of November after a launch price of $10.40, but dropped to a $7.50 bid and $9.50 offer on news of the coup attempt a week ago, and are currently trading at around $8.50 to $9.00.

The fund is 51 per cent invested with $26m of its reserves still held in cash, according to Mr Ray Jovanovich who manages the fund from Banque Indosuez's Hong Kong office.

However, even if the country weathers the crisis and returns to stable growth, a Philippines fund would only represent a small part of any institutional investor's portfolio, given that the entire market has a capitalisation of some $8bn to $10bn compared with around $700bn in the UK.

"Institutions have to be aware that these are high risk, high reward markets," says Mr Charles Lillis, executive director at Merrill Lynch, who markets many country funds. He says he would not advise putting a large proportion of a portfolio's or individual's money into one country fund.

Country funds have proved popular this year, particularly among Japanese investors looking to participate in the often huge growth of emerging stock markets worldwide.

Mr Charles Fowler at John Govett points out that country funds should form part of a diversified portfolio, to balance political and geographical risk. John Govett manages a Malaysian emerging companies fund that was launched by Hoare Govett this week.

The company has seen the Singapore fund it also manages rise to 14 per cent premium on net asset value from its launch this year.

John Govett is to launch a $50m to $100m Hungary fund at the beginning of next year as investors turn their attention to eastern Europe.

Futures trading starts on Copenhagen KFX index

TRADING in futures based on a new stock index will begin on the Copenhagen Stock Exchange today, writes Hilary Barnes from Copenhagen.

Initially trading will take place in three and six month futures, but later nine month futures and European call and put options will be introduced.

The index, KFX, is based on the 25 most liquid stocks with the largest market value. The index is calculated and announced at five minute intervals through the market's electronic trading and information system.

The futures will be traded in multiples of DKr100,000 at face value.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on December 6

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alberta 8½ 96	750	100¼	101	0	+0⅛	8.45
Alberta 9⅜ 95	600	104⅛	104½	0	+0¼	8.40
Austria 9⅝ 93	140	103¼	103¾	+0⅛	+0¼	8.33
B.F.C.E. 8⅞ 94	175	99¾	100¼	0	+0¼	8.36
B.F.C.E. 9¼ 95	150	103⅛	103⅝	+0⅛	+0¼	8.45
Brit. Tel. Fin. 9⅜ 98	250	104	104½	−0⅛	+0⅛	8.69
Canada 9 96	1000	103⅝	104⅛	+0⅛	+0⅛	8.17
C.C.C.E 9¼ 95	300	103¼	103⅝	0	+0⅛	8.41
C.N.C.A 9⅜ 93	150	102½	103	+0⅛	+0⅜	8.49
Credit National 8¼ 93	200	99⅝	100⅛	0	+0¼	8.27
Credit National 7⅞ 92	100	97⅞	98⅜	0	+0⅛	8.24
Credit National 9½ 92	160	†102½	103	0	+0¼	8.43
Dai-Ichi Kan 9⅝ 92	150	102⅝	103	0	+0⅛	8.50
Denmark 8¼ 94	150	†99	99½	0	+0⅝	8.43
E.E.C. 7 91	100	97½	98	0	+0⅛	8.27
E.E.C. 10 93	140	†104½	104⅞	0	+0⅛	8.31
E.I.B. 8½ 99	150	99¾	100⅛	0	+0⅛	8.52
Eurofima 10⅛ 93	100	†104⅝	105	0	+0⅛	8.38
Elec. De France 9 98	200	102⅞	103¼	+0⅛	+0¼	8.45
Elec. De France 9½ 99	200	105⅛	105¼	0	+0¼	8.58
Finland 9 96	250	102⅜	102¾	+0⅛	−0⅛	8.44
Finn.Exp.Cd. 8½ 92	200	100⅛	100⅝	0	+0¼	8.28
Finn. Exp. Cd. 9⅜ 95	200	103½	104	0	0	8.53
Ford Motor Credit 8 91	250	†99	99½	0	0	8.57
Gen. Elec. Cap. Corp. 9 93	500	†102	102½	0	+0⅛	8.31
Gen. Elec. Cap. Crp. 10 1/2 91	300	102⅛	102⅝	0	0	8.40
G.M.A.C. 9 96	300	100¾	101⅛	0	+0¼	8.78
Gen. Mtrs. Corp. 9⅛ 92	200	101⅛	102	0	+0¼	8.37
IBM Credit Corp. 8⅝ 92	400	100½	100⅞	0	+0¼	8.36
IBM Credit Corp. 8⅞ 91	250	100⅝	101⅛	0	+0¼	8.34
IBM Credit Corp. 9 92	250	†101⅝	102⅛	0	+0¼	8.14
IBM Credit Corp. 9½ 92	250	101⅞	102⅜	0	+0⅛	8.37
Italy 8½ 94	1500	100½	100¾	0	+0¼	8.33
Italy 9½ 95	1000	104¼	104¾	+0⅛	+0⅛	8.50
Italy 9⅝ 99	1000	106¼	106½	+0⅛	+0⅜	8.59
Itoh C. W/W 4⅝ 94	1000	110¾	111¾	+0⅛	+0½	2.01
Japan Dev. Bank 10 96	200	107⅜	107⅞	0	+0¼	8.42
KFW Intl. Fin. 9 94	300	102	102½	0	+0⅛	8.39
L.T.C.B. of Japan 9¼ 92	200	101½	102⅛	0	+0⅛	8.53
Nippon Tel. & Tel. 9⅜ 98	250	104½	104⅞	0	+0¼	8.61
Norway 8⅞ 93	500	101⅜	101⅞	0	+0¼	8.14
Portugal 8¼ 91	300	†99	99½	+0⅛	0	8.83
Sumitomo Corp. W/W 4 93	1500	123⅛	124⅛	−0½	−0⅞	−2.29
Sweden 8¾ 96	200	101¾	102⅛	0	+0⅜	8.31
Sweden 8½ 92	200	†99⅝	100⅛	0	+0¼	8.52
Toyota 9½ 91	200	101¾	102¼	0	+0⅛	8.38
Toyota Mtr. Corp. W/W 4 93	1500	106⅞	107⅞	+0¼	0	1.84
Victorian Rep 11⅝ 92	150	105⅝	106¼	0	+0¼	8.69
World Bank 8⅜ 99	1500	101⅛	101⅜	0	+0¼	8.39
World Bank 9 97	300	102⅞	103⅜	0	+0¼	8.42
World Bank 9 93	300	102⅛	102½	+0⅛	+0⅛	8.18
World Bank 9¼ 98	300	104⅛	104⅝	0	0	8.51
World Bank 9⅝ 99	500	106¾	107	+0⅛	+0¼	8.51
World Bank 9¾ 96	300	106⅛	106⅜	0	+0⅛	8.43

Average price change... On day +0 on week +0⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	91¾	92⅛	−0⅛	+0⅜	8.02
Austria 6¾ 99	750	†94¼	94⅜	+0⅛	+0⅜	7.62
Bk. Frgn. Econ. USSR 7 96	750	*†93⅜	94⅜	0	+0¼	8.22
Bank of Tokyo 5¾ 95	100	93½	94	0	+0¼	8.01
Commerzbank o/s. 5⅛ 93	300	93⅜	93⅞	0	+0⅜	7.77
Credit Foncier 6¾ 99	500	93½	93¾	−0⅛	+0⅛	8.77
E.I.B. 6¼ 99	600	90⅞	91¼	+0¼	+0¼	7.65
E.I.B. 6½ 99	300	†94⅛	94¾	0	−0¼	7.33
E.I.B. 6⅝ 96	600	95¾	96¼	+0⅛	+0¼	7.43
E.I.B. 6⅞ 95	300	97⅝	98⅛	+0⅛	+0⅜	7.33
Euro. Coal & Steel 5⅞ 97	175	89½	90¼	+0⅛	0	7.76
Eurofima 6¼ 96	100	92¼	92⅞	+0⅜	+0⅝	7.74
Elec De France 5¾ 97	300	90⅞	91⅞	+0¼	+0⅝	7.32
Hydro-Quebec 6⅜ 99	300	†92¾	93½	0	−0⅜	7.81
Japan Dev. Bk. 5⅜ 95	300	†90⅜	90⅞	+0⅛	−0⅛	7.54
Japan Finance 5¾ 97	100	88½	89	0	−0¼	7.85
I.A.D.B. 7⅛ 99	300	97	97⅜	0	−0¼	7.68
Ireland 6½ 97	300	90⅞	91⅜	−0¼	−0¼	8.13
Ireland 7¼ 99	500	96	96½	0	+0¼	7.81
Malaysia 6¼ 94	150	93⅜	93⅞	0	−0½	7.99
Nat. West BK. PLC 6 98	300	†88¼	88⅝	+0½	0	7.94
N.H.L. Finance 6¼ 95	200	†88¼	88¾	−0½	−3	8.82
Nippon Telg. & Tel. 6 95	400	†93⅞	94⅜	0	+1	6.50
Oesters. Kontbk. 5 93	300	91⅞	92⅜	+0¼	−0⅜	7.91
Portugal 5¾ 92	150	94½	95	0	+0⅜	8.00
Portugal 6⅝ 95	150	94⅝	95¼	0	−0¼	7.77
Privatbanken 5¼ 93	150	91⅞	92⅜	0	−0⅛	8.11
Royal Insurance 5½ 92	300	94¼	94⅞	0	+0½	8.15
Turkey 6½ 95	500	†91¾	92¼	0	+0½	8.38
Union Bk. Finland 5½ 94	200	†90⅝	91⅛	+0¼	0	8.19
World Bank 6 98	500	†89	89¾	+0⅜	0	7.73
World BK. 6¼ 97	600	91½	91⅞	0	+0¼	8.52
World Bank 6¾ 99	600	93⅞	94⅜	0	+0⅜	7.62

Average price change... On day +0 on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev. Bk. 5 96	150	*†90	91	0	−0⅜	6.82
Asfinag 5 03	100	*†85	86½	0	+0⅝	6.61
B.F.C.E. 4½ 98	200	*†87¾	88	0	+0½	6.37
B.M.W. Fin. Neth. 5 13	150	*†85	85½	0	−0⅜	6.21
Britannia B/S. 4¼ 94	100	*†86	88	0	0	7.76
CIR. Int. W/W 3 93	125	*†88	90	0	−0½	6.50
Credit Lyonnais 4¾ 00	100	*†86½	87½	0	−0⅞	6.49
E.I.B 4⅝ 98	150	*†86¼	87½	0	−0⅝	6.64
Finn. Exp. Cd. 8¼ 92	75	*†100¼	100¾	0	−0⅛	8.03
Fletcher Chall. 4⅞ 98	150	*†83	83¼	0	−0⅝	7.68
I.A.D.B. 6 2004	200	*†95¼	96	0	−0⅛	6.44
Kobe City 4¼ 98	150	*†87	88	0	0	6.57
Leeds Perm. B/S. 4¼ 93	200	*†88½	89	0	−0⅜	8.07
Malaysia 5¼ 98	100	*†84	84½	0	+0¼	7.23
Maxwell Comm. Cp. 5 95	150	*†79¼	80	0	+0⅝	9.92
Nat. Bk. Hungary 5½ 94	75	*†86	87½	0	−0⅜	8.87
Nationwide Ang. B/S. 4 93	200	*†88	88½	0	−1½	7.89
Prov. Newfoundland 5 03	150	*†84½	85½	0	+0⅜	6.68
Thailand 4⅝ 95	200	*†86	87	0	−1	7.57
World Bank 5 03	150	*†87½	88½	0	+1¼	6.33

Average price change... On day 0 on week −0¼

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅛ 91	80	99⅞	100⅛	0	0	6.09
Canada 5⅝ 93	80	98¼	99	+0⅛	0	5.97
Eurofima 5 1995	20	95⅛	95⅞	0	+0⅛	5.97
E.I.B. 4⅞ 93	30	96⅛	96⅝	0	0	6.09
Ireland 5⅛ 93	30	96⅜	96⅞	0	0	6.25
Norway 5⅛ 95	50	96⅞	97⅛	0	+0⅛	5.79
Sweden 4⅝ 93	50	95⅝	95⅞	0	0	6.02
World Bank 5⅛ 98	10	94¾	95⅜	0	+0⅛	5.90
World Bank 7 94	20	103¾	104⅛	+0⅛	+0⅛	5.92

Average price change... On day +0 on week +0

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 10¼ 94 C$	150	96⅛	96⅝	0	−0⅛	11.21
Abbey Nat. 11⅝ 93 £	100	95½	96	+0⅛	−0⅛	13.32
Aegon 7¾ 92 FL	100	100⅝	100¾	0	+0½	7.86
Alg. Bk. Ned. 5¾ 93 FL	200	93	93½	0	0	8.16
Austria 7½ 94 ECU	100	†93⅜	93⅞	−0⅛	+0¼	9.35
Barclays Aus. 13½ 91 AS	100	97⅜	98	−0⅛	+0¼	14.98
Belgium 8⅛ 94 Ecu	150	95⅛	95¼	−0⅛	−0⅛	9.44
Bell Canada 10⅞ 04 C$	200	101	101⅜	−0⅛	−0¼	10.71
BP Capital 9¾ 93 £	100	91⅛	91⅝	0	−0⅜	13.04
British Airways 10 98 £	100	88⅝	89⅛	+0⅛	−0⅜	12.19
Brit. Telecom 9½ 93 £	150	91	91½	+0⅛	−0⅛	12.91
Comm. Bk. Aust. 12⅝ 93AS	100	†93⅛	93⅝	0	0	15.13
Comm. Bk. Aus. 13¾ 94 NZ$	60	†104	105	0	0	12.38
Credit Foncier 9 96 Ecu	100	97½	98⅛	−0½	−0⅝	9.45
CrLocalFrance 9⅛ 92Ecu	100	99	99⅜	−0⅛	−0¼	9.61
Deut. Bk. Aus. 13⅜ 93 AS	125	†96⅜	96⅞	−0⅛	+0⅝	14.55
Deutsche Bk. Fin. 15 94 AS	100	†102⅝	103⅛	−0¼	+0¼	14.00
Elec. De France 9¾ 99C$	150	95⅛	95⅝	0	−0¼	10.52
E.I.B. 7 96 LFr	100	*†95	96	0	0	7.95
E.I.B. 7⅛ 99 FL	150	94⅝	95⅛	0	0	7.89
E.I.B. 9 99 Ecu	150	98⅜	98⅞	0	+0⅛	9.21
Eurofima 7⅝ 94 Ecu	100	94¼	94¾	−0⅛	+0⅜	9.27
Export Dv. Crp. 8⅞ 92Ecu	100	98⅛	98⅝	−0⅛	0	9.49
Fed. Bus. Dv. Bk. 9 94 Ecu	100	98	98⅜	−0⅛	−0⅛	9.50
Fed. Bus. Dv. Bk. 9¾ 92 C$	75	†97¼	97¾	0	0	10.89
Ferrv. Stato 7¾ 93 Ecu	100	94	94½	−0⅛	−0⅜	9.74
Ford Cr. Can. 10¼ 93 C$	100	†98⅝	99⅛	0	+0¼	11.15
Ford Cred. Can. 10⅞ 96C$	125	99⅛	99⅝	0	+0⅛	10.99
Ford Cred. Fund. 10¾ 93£	60	93⅝	94⅛	+0⅛	0	12.82
G.M.A.C. Canada 11 3/4 94C$	100	101⅜	102	−0⅛	0	11.22
Heineken 7⅜ 94 FL	150	100¾	101⅝	0	−0⅛	7.69
Hydro-Quebec 11 99 C$	400	101⅝	101⅞	−0⅛	+0¼	10.68
Lloyds Bank 10¼ 98 £	150	88⅞	89⅜	−0¼	−1	12.40
Lloyds Bank 11⅜ 98 £	100	92	92½	0	−0½	12.87
Montreal Tst. 10¼ 93 C$	100	†97⅝	98⅛	0	−0¼	11.45
Nat. Aus. Bk. 14⅛ 94A$	100	†98⅞	99⅜	0	+0½	14.99
New Zealand 9½ 93 £	100	90⅛	90⅝	−0⅛	−0¼	13.14
O.E.K.B. 10¼ 99 C$	150	98	98⅜	0	+0⅛	10.55
Royal Bk. Scot. 10⅝ 98 £	125	91⅛	91⅝	−0⅛	−0⅝	12.37
Saskatchewan 10¼ 93 C$	200	97⅝	98⅛	0	−0⅛	10.93
State Bk. NSW. 13⅞ 93A$	100	†96⅜	96⅞	−0⅛	+0½	15.06
Sweden 7½ 93 Ecu	250	93⅝	94⅜	0	+0¼	9.38
Sweden 15 94 AS	100	†102½	103	−0¼	+0¼	14.04
Toronto-Dom. 11½ 91 C$	100	100⅝	100⅞	+0⅛	0	11.05
Toyota Mtr. Cr. 10⅜ 94C$	150	97½	98	0	−0⅛	10.93
Toyota Mtr. Cr. 11⅜ 92C$	150	100⅜	101	0	0	11.00
World Bank 7⅛ 99 FL	300	94⅝	95⅛	0	−0⅛	7.90
World Bank 13⅜ 92 AS	100	†100⅜	101⅛	0	+0¼	12.87
World Bank 14¼ 94 AS	75	100½	101	−0⅛	+0¼	13.96
Zentrspk. 13¼ 93 AS	75	†96⅜	96⅞	0	+0½	14.41

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic. Bld 94 £	.08	99.74	99.79	24/01	15.21
Bank of Greece 99 US	0¼	99.56	99.66	8/03	9¼
Belgium 91 US	0	100.13	100.23	21/02	8.81
Chelt. & Gloucester 94 £	.063	99.73	99.78	28/02	15.31
Credit Foncier 98 US	.063	99.91	100.01	20/04	8.31
Dresdner Finance 99 DM	.031	100.08	100.19	28/01	8.16
EEC 3 92 DM	0	100.08	100.18	22/02	6¾
Halifax BS 94 £	.1	100.05	100.10	9/02	15.16
Invt. in Industry 94 £	0¼	99.95	100.06	17/01	15.19
Leeds Perm. B/S. 94 £	0⅛	100.05	100.10	15/01	15.37
Milk Mkt. Brd. 5 93 £	0⅛	99.79	99.84	29/12	14.94
New Zealand 5 97 £	.07	100.04	100.14	22/02	15¼
Northern Rock 92 £	0½	99.82	99.87	20/01	5¼
State Bk. Nsw. 98 US	.188	100.01	100.11	11/02	8.81
Woolwich Equit. BS. 93 £	0⅛	99.92	99.97	15/01	15.37
Woolwich 5 95 £	0⅛	99.89	99.94	22/02	15.31

Average price change... On day 0.00 on week +0.03

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US	8/87	62.	121⅝	122⅝	+3⅛	0.45
Amer. Brands 7⅞ 02 US	9/87	56.7	124¼	125¼	−1⅝	−1.25
CBS. Inc. 5 02 US	4/87	200.	103⅛	104⅛	0	3.43
Dai-Ichi Kan. 3⅞ 04 US	7/89	3486.	98⅜	99⅜	+0⅝	8.05
Primerica 5½ 02 US	†4/87	66.75	74	75	0	68.57
Eng. China Clay 6½ 03 £	9/88	4.8	91⅜	92⅜	+2⅜	5.25
Fujitsu 3 99 US	5/84	1106.	214	215	+1	−1.52
Ladbroke 5¼ 04 £	6/89	7.1	101¼	102¼	+0½	127.89
Land Secs. 6¾ 02 £	6/87	6.72	88⅜	89⅜	+2¾	8.44
Minolta Camera 2¼ 94DM	†2/86	1004.	111¼	112¾	+0¼	5.12
MCA INC 5½ 02 US	9/87	69.62	105	106	−0¼	9.23
Mitsubishi Bk. 3½ 04US	5/89	3266.	96⅜	97⅜	+0½	4.09
Next Plc 5¾ 03 £	11/87	4.3	93⅞	94⅞	0	388.93
Nishi Nipp. Bk. 2⅞ 03 US	4/88	894.	143	144	+2⅝	3.81
Omnicom Inc. 6 1/2% 04 US	10/89	28.	102¼	103¼	+0¼	18.58
Omron Tateisi 2¾ 02 US	4/87	1310.	289½	290½	+5	−0.53
Ranks Hovis 4⅞ 03 £	†1/88	3.5	119¼	120¼	+0½	−0.21
Redland 7¼ 02 £	†1/87	5.4	103¼	104¼	+0⅞	1.80
Saatchi & Saatchi 6¾ 03 £	†10/89	4.41	89	90	−0¼	51.81
Silicon Graphics 8 04 US	6/89	23.18	117½	118½	+0¼	6.22
Sumitomo Bank 3¾ 04 US	2/89	3897.	90⅜	91⅜	+2¼	6.46
Texas Inst. 2¾ 02 US	9/87	82.87	77⅜	78⅜	−0¼	78.04
Utd. N'papers 8 04 £	10/89	8.77	118¼	119¼	+1½	118.66
W.R. Grace 6¼ 02 US	9/87	42.12	91½	92½	−0½	28.12

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate ([illegible]) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

Merrill to pull out of dealing in Euro-paper

Stephen Fidler, Euromarkets Correspondent

MERRILL LYNCH, the fourth largest dealer in the Eurocommercial paper market, has informed clients it intends to pull out of the business.

The move, which surprised competitors, follows a period of stagnation in the market. Outstanding Eurocommercial paper is estimated at $70bn, in line with the level at the year-end.

Merrill's is the most significant withdrawal from the market since Salomon Brothers announced in October 1987 that it was to pull out of money market operations in Europe and the US.

Merrill has told clients it will gradually run down its business as alternative funding sources are found. It is likely to have withdrawn completely some time next year.

It said the move would not affect its bigger commercial paper business in the US, where it is the largest dealer, or other money market and medium-term note operations in Europe.

Merrill is a dealer on 197 Eurocommercial paper and Eurocertificate of deposit programmes, and is principal agent on a further 23 so-called revolving underwriting facilities.

It said it had decided to pull out because of "diminished expectations of the long-run potential of ECP." Eurocommercial paper had "failed to show significant growth, in contrast with other parts of the market."

The market has not been highly profitable. Low margins have led many commercial paper dealers to combine their commercial paper operations with a general money markets desk.

As Merrill has tightened headquarters control over its London operation, its London money market business was one of the last to report to New York. Competitors said they assumed the decision reflected how a stagnant and barely profitable business did not fit with head office strategy.

Merrill played a prominent part in the growth of the market, and is dealer on several important programmes, including those for the Australian Wheat Board, Sweden and Spain. Its market share was assumed to be about 8 per cent, although the firm declines to comment on that figure.

Financing for Gateway buy-out wins firm support

By Stephen Fidler

S.G. WARBURG said yesterday that it had found firm support for a £1.36bn ($2.15bn) leveraged buy-out financing for Isosceles, the company formed to buy the Gateway supermarkets group of the UK, as the company indicated its performance was currently running ahead of budget.

Warburg closed syndication on the transaction on Tuesday. It said £807m represented the amount sold down to other banks and substantial desired final commitments of the underwriters. The remainder will remain on the books of underwriters.

It admitted that the syndication had been made more difficult by "current concern relating to leveraged buy-outs in the US and the UK." But, in the circumstances, the underwriters of the senior loans were "comfortable with the transaction and with the performance of the company to date."

The syndication widened the banking group to include a mix of British, continental European, US and Japanese institutions, Warburg said in a statement.

The statement quoted Mr David Smith, Isosceles' managing director, as saying that the company's moves so far to strengthen Gateway had been successful.

French insurer to buy 4.9% of MBIA

By George Graham in Paris

CREDIT Local de France, the French state-controlled local authority financing specialist, is to pay around FFr300m ($49m) for a 4.9 per cent stake in MBIA, the leader in the US market for municipal bond insurance.

The two groups plan to build on each other's expertise in their local markets, with Crédit Local developing an activity in guaranteeing municipal bond issues in the US and MBIA seeking to set up a subsidiary in France to look for opportunities in the European market.

The two markets are different. Most US local authority financing is carried out through direct issues of tax-exempt bonds. To ensure a good rating for these bonds, the issues are often backed either by an insurer or by a letter of credit from a bank syndicate.

However, the two companies expect an increasing transfer of techniques from one market to the other, especially as the possibility of direct funding of local authorities and of infrastructure projects opens up in Europe.

Crédit Local hopes to build its presence in the letter of credit segment, using its AAA credit rating, with a target of $100m of business in the first six months and $500m a year within two years. It will use MBIA's experience in evaluating issues, but this activity is expected to complement MBIA's insurance of municipal bonds.

Around 40 per cent of the $120bn a year of US municipal bond issues is guaranteed, with some $20bn in the form of letters of credit and $32bn guaranteed by insurers. MBIA – originally the Municipal Bond Insurance Association, a consortium set up by four large US insurers – has around 38 per cent of its market segment.

Crédit Local finances around 45 per cent of local authority borrowing in France, and expects activity in this market to stagnate in the years to come. Therefore, it has been seeking to develop its business overseas.

Japanese warrant issue leaps to big premium

By Andrew Freeman

INTERNATIONAL BONDS

SECONDARY TRADING on the Eurobond markets was very slow yesterday, and dealers concentrated on placing paper from recent new issues. The Ecu sector saw lively business as investors were persuaded to buy high-yielding paper.

On the primary market, patchy business suggested that some syndicate managers were eyeing the end-of-year league tables rather than responding to genuine investor demand.

However, Yamaichi brought a $500m deal with equity warrants for Ishikawajima-Harima Heavy Industries to a premium almost as spectacular as the borrower's name is long. The bonds traded from their par issue price up to a closing level of 110½ bid, buoyed by the strong equity market in Tokyo.

S.G. Warburg was the lead manager of an increased £175m mortgage-backed issue for Temple Court Mortgages No.1, a special-purpose vehicle for Legal & General, the UK finance and insurance company.

The notes offered a yield of 25 basis points over three-month Libor (London interbank offered rate), and were reoffered to investors at 99.65, implying a 10 basis point fee for the underwriting banks. The syndicate agreement was still in force at the end of trading, and Warburg said it would probably allow the notes to trade freely this morning.

Daiwa brought two deals, both $100m straight issues, to mixed receptions. A three-year deal for Sumitomo Corporation Overseas Capital offered a 72 basis point spread over Treasuries, which many traders said was very tight.

Daiwa said the pricing was competitive, and confirmed that it had bought back some paper via independent brokers, noting that most of the bonds were taken by Sumitomo's relationship banks.

Daiwa quoted the paper at less 1.43 bid, outside full fees of 1⅞ point. Away from the lead manager, traders offered prices of less 1.60 bid, implying a spread over Treasuries of nearly 82 basis points. Proceeds were swapped, probably into yen.

A six-year deal for the Development Bank of Turkey was also roundly criticised by the market for being very tightly priced.

The par-priced bonds offered a yield of 220 basis points over Treasuries, but the paper was judged too tight at around 130 basis point over Libor after asset swaps. Proceeds were swapped into floating-rate dollars.

Daiwa defended its issue, saying that it had sounded out the market three days ago and had found several banks with good demand at the indicated terms. An official said the bonds were bid on fees at less 1⅞, amid small amounts of selling.

Other syndicate members were divided. Most said they thought the pricing tight, but that they had managed to sell their bonds for asset swaps in the Far East. They said the paper was trading around less 2⅛ bid on brokers' screens.

Banco di Roma brought the largest Euro-lire issue, a L500bn floating-rate note for the state-guaranteed Ferrovie dello Stato. The notes offered a yield equivalent to six-month Libid (London interbank bid rate), currently around 12.70 per cent annually, and were judged by traders as fairly priced. Demand was steady, and the paper traded on fees at 99.30 bid.

In Germany, amid otherwise quiet trading, Dresdner Bank brought a DM100m five-year deal for European Coal & Steel Community. The bonds were well received, and traded inside fees at less 1½ bid. Elsewhere, there was speculation that a World Bank deal may be imminent.

● The Italian Treasury is offering L2,000bn of six-year government certificates with options for early redemptions (CTOs) carrying a 12.5 per cent coupon. The Treasury is also reoffering L1,000bn of certificates maturing November, 1994.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Ishikawajima-Harima Heavy♦	500	(3¼)	100	1993	2¼/1½	Yamaichi Int. (Europe)
Development Bank Turkey(b)◆	100	9¾	100	1995	1⅞/1¼	Daiwa Europe
Sumitomo Corp.Overseas(b)◆	100	8½	101⅛	1992	1⅜/⅞	Daiwa Europe
Nichiei Co.(a)♦◆	300	2⅛	100	1993	2¼/1½	Yamaichi Int. (Europe)
LIRE						
Ferrovie dello Stato(c)‡◆	500bn	(c)	100	1998	70/40bp	Banco di Roma
D-MARKS						
European Coal & Steel(b)◆	100	7¾	101½	1994	1⅝/1⅛	Dresdner Bank
STERLING						
Temple Court M'gage N.1(d)‡◆	175	(d)	100	2029	45bp	S.G. Warburg Secs.
YEN						
Toronto-Dominion Bank(e)◆	4bn	8½	101⅛	1991	1⅛/⅝	New Japan Secs. Europe

★Private placement. ♦With equity warrants. ‡Floating rate notes. ◆Final terms. a) Coupon cut by ½% from indication. b) Non-callable. c) Equal to 6-month Libid. First coupon fixed at 12.7% (annual). Call from January 1991 and on coupon dates thereafter at par. d) 25bp over 3-month Libor, rising to 50bp after 10 years. Average life 8½ years. e) Redemption linked to Nikkei stock index.

Treasuries show little response to latest Tan report

By Janet Bush in New York and **Rachel Johnson** in London

GOVERNMENT BONDS

US TREASURY bonds remained in a tight trading range yesterday and reacted little to the publication of the US Federal Reserve's latest Tan Book, a report on the economic situation from regional Fed banks.

At midsession, bond prices across the maturity spectrum were quoted unchanged or up to ⅛ point higher and lower. The Treasury's benchmark long bond was unchanged for a yield of 7.88 per cent. Prices have moved little this week as traders wait for tomorrow's November employment report.

There has been little economic news this week to push prices out of their tight ranges. The Fed funds rate has traded steadily all week at between 8½ per cent and 8⅝ per cent.

The Fed's Tan, or Beige, Book, used as a guide to setting monetary policy within the Federal Open Market Committee, said that most Fed districts reported some falls in manufacturing but that there were also pockets of strength.

It also noted flat or modestly increased input prices and a varied experience in consumer spending. The overall message was one of weak signals on interest rates.

■ A COUPLE of figures hinting at a slowdown in the West German economy in the short term boosted bunds yesterday.

They rallied half a point as manufacturing orders dipped 3 per cent for October and the trade balance confirmed that growth had slowed.

The bund future on Liffe opened at 90.87 and closed half a point higher at 91.29.

In the cash market, the December 1999 bund with a 7⅛ coupon moved 40 pfennigs higher, to close yielding 7.19 per cent.

However, UBS Phillips and Drew put in a note of caution that the slowdown in the economy would probably prove to be a mere blip. West Germany was still likely to push vigorously into the 1990s, despite the latest indicators.

■ IN THE UK, government bonds fell about a ¼ point in busy trading, although there was no obvious change of sentiment.

Although political uncertainty has been put to one side, the market was still swept by rumour. The big story was of an unwinding of a swap contract with a local authority. The benchmark Treasury 9 per cent bond due in 2008 lost about 7 ticks, while the cash market lost about ⅛ across the board.

In the index-linked market, prices began to look expensive relative to conventional gilts. The 2.5 per cent index-linked stock lost ⅛ as investors switched into fixed interest stocks.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	103-07	-5/32	12.09	11.99	11.65
		9.750	1/98	93-11	-9/32	11.01	10.90	10.70
		9.000	10/08	91-18	-12/32	10.00	9.94	9.77
US TREASURY *		7.785	11/99	100-12	+0/32	7.85	7.91	8.02
		8.125	8/19	102-26	+3/32	7.88	7.92	7.97
JAPAN	No 111	4.600	6/98	94.8807	+0.001	5.48	5.49	5.57
	No 2	5.700	3/07	101.7728	+0.080	5.50	5.47	5.42
GERMANY		7.000	9/99	98.5000	+0.350	7.21	7.33	7.26
FRANCE	BTAN	8.000	10/94	94.2945	+0.074	9.51	9.68	9.76
	OAT	8.125	5/99	94.7200	+0.200	8.98	9.18	9.17
CANADA *		9.250	12/99	97.1250	-	9.71	9.89	9.46
NETHERLANDS		7.250	7/98	98.8200	+0.250	7.72	7.82	7.72
AUSTRALIA		12.000	7/99	93.6717	-0.385	13.14	13.08	13.41

London closing. *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Index No. (Wed Dec 6 1989)	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Tue Dec 5 Index No.	Mon Dec 4 Index No.	Fri Dec 1 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (205)	[illegible]									
2 Building Materials (28)	[illegible]									
3 Contracting, Construction (37)	[illegible]									
4 Electricals (10)	[illegible]									
5 Electronics (30)	[illegible]									
6 Mechanical Engineering (53)	[illegible]									
8 Metals and Metal Forming (6)	[illegible]									
9 Motors (17)	[illegible]									
10 Other Industrial Materials (24)	[illegible]									
21 CONSUMER GROUP (185)	[illegible]									
22 Brewers and Distillers (23)	[illegible]									
25 Food Manufacturing (20)	[illegible]									
26 Food Retailing (15)	[illegible]									
27 Health and Household (14)	[illegible]									
29 Leisure (35)	[illegible]									
31 Packaging & Paper (14)	[illegible]									
32 Publishing & Printing (18)	[illegible]									
34 Stores (32)	[illegible]									
35 Textiles (14)	[illegible]									
40 OTHER GROUPS (95)	[illegible]									
41 Agencies (17)	[illegible]									
42 Chemicals (22)	[illegible]									
43 Conglomerates (14)	[illegible]									
45 Transport (13)	[illegible]									
47 Telephone Networks (2)	[illegible]									
48 Miscellaneous (27)	[illegible]									
49 INDUSTRIAL GROUP (485)	[illegible]									
51 Oil & Gas (15)	[illegible]									
59 500 SHARE INDEX (500)	[illegible]									
61 FINANCIAL GROUP (120)	[illegible]									
62 Banks (9)	[illegible]									
65 Insurance (Life) (7)	[illegible]									
66 Insurance (Composite) (7)	[illegible]									
67 Insurance (Brokers) (7)	[illegible]									
68 Merchant Banks (11)	[illegible]									
69 Property (49)	[illegible]									
70 Other Financial (30)	[illegible]									
71 Investment Trusts (69)	[illegible]									
81 Mining Finance (1)	[illegible]									
91 Overseas Traders (7)	[illegible]									
99 ALL-SHARE INDEX (697)	[illegible]									

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Dec 5	Dec 4	Dec 1	Nov 30	Nov 29	Year ago
FT-SE 100 SHARE INDEX♦	2353.7	+26.2	2355.6	2316.4	2327.5	2303.4	2311.1	2276.3	2255.6	1771.7

FIXED INTEREST

PRICE INDICES	Wed Dec 6	Day's change %	Tue Dec 5	xd adj. today	xd adj. 1989 to date
British Government					
1 Up to 5 years	116.18	-0.04	116.33	0.10	11.00
2 5-15 years	129.00	-0.15	129.19	-	11.60
3 Over 15 years	136.81	-0.19	137.27	0.20	12.90
4 Irredeemables	154.40	+0.04	154.33	-	9.66
5 All stocks	127.37	-0.11	127.37	0.05	11.72
Index-Linked					
6 Up to 5 years	140.51	-0.20	140.79	-	2.79
7 Over 5 years	138.12	-0.25	138.47	-	3.21
8 All stocks	138.18	-0.25	138.52	-	3.15
9 Debentures & Loans	105.87	-0.06	105.93	-	10.76
10 Preference	85.16	-0.10	85.25	-	6.14

AVERAGE GROSS REDEMPTION YIELDS			Wed Dec 6	Tue Dec 5	Year ago (approx.)
British Government					
1	Low	5 years	10.37	10.36	10.30
2	Coupons	15 years	9.89	9.89	9.49
3		25 years	9.26	9.28	9.06
4	Medium	5 years	11.41	11.37	10.69
5	Coupons	15 years	10.32	10.29	9.70
6		25 years	9.94	9.92	9.25
7	High	5 years	11.56	11.51	10.85
8	Coupons	15 years	10.51	10.50	9.85
9		25 years	10.07	10.07	9.28
10	Irredeemables		9.90	9.90	8.91
Index-Linked					
11	Inflation rate 5%	Up to 5yrs.	3.71	3.64	3.44
12	Inflation rate 5%	Over 5 yrs.	3.78	3.68	3.69
13	Inflation rate 10%	Up to 5 yrs.	2.87	2.79	2.28
14	Inflation rate 10%	Over 5 yrs.	3.53	3.52	3.52
15	Debs & Loans	5 years	12.94	12.94	11.37
16		15 years	12.44	12.43	11.12
17		25 years	12.11	12.09	10.86
18	Preference		10.78	10.77	10.36

♦Opening index 2324.9; 10 am 2316.7; 11 am 2320.2; Noon 2326.6; 1 pm 2327.6; 2 pm 2338.2; 3 pm 2340.4; 3.30 pm 2341.8; 4 pm 2345.4. (a) 4.37 pm (b) 9.53 am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 34p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	7	78	17
Corporations, Dominion and Foreign Bonds	9	2	30
Industrials	437	315	847
Financial and Properties	215	126	337
Oils	36	20	37
Plantations	1	0	8
Mines	21	57	84
Others	41	108	98
Totals	767	706	1,458

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

- First Dealings Dec 4
- Last Dealings Dec 15
- Last Declarations Mar 8
- For settlement Mar 19

For rate indications see end of London Share Service

Calls in ASDA, Alphameric, Amstrad, British & Comm., Canpari, NatWest Bank, Richmond Oil, Smith & Nephew, Utd. Scientific.

LONDON TRADED OPTIONS

ACTIVITY on the London traded options market yesterday was brisker than of late with a total volume of 43,157 contracts traded. This was made up of 33,144 calls and 10,013 puts.

The FT-SE option was the most active single contract and saw 10,220 contracts traded. Call transactions exceeded put transactions by about two to one with 6,847 calls and 3,373 puts traded. There was an absence of large trades and most of the activity was between market makers, but the tone was very bullish with traders buying calls and selling puts.

The top individual stock yesterday was again Dixons', which traded 5,852 contracts on news of the hostile Kingfisher bid. Early on there was a lot of contract closing, followed by good two-way trade through the day. The December 130 calls were most active with a total of 1,315 contracts. Call volume far exceeded put volume with 5,506 versus 3,346 contracts.

British Gas was the second most actively-traded stock with a total of 4,019 contracts. Again, virtually all the interest was on the call side with 3,644 contracts transacted. Of these 2,247 contracts were traded in the March 220 calls, including 1,500 at 13¼ and 13½.

Hanson ranks third with a total volume of 2,254 contracts comprising 2,203 calls and 51 puts. The new month's February 220 calls saw 1,025 contracts traded.

British and Commonwealth traded 2,236 contracts of which 1,185 were calls and 1,051 puts. The April 1990 calls and the April 1990 puts both traded 1,050 contracts. In Lonrho 1,694 contracts traded of which 1,681 were calls and 13 puts.

Trade was good in Cable & Wireless with 1,733 contracts traded, following news that the consortium to which it belongs has won the contract for a cellular phone system in West Germany.

The other leading issues were Blue Circle and British Telecom. Blue Circle trade totalled 1,438 contracts including 400 June 200 calls sold at 43 and 400 June 220 puts sold at 4. In BT, 1,069 contracts were traded.

[illegible]

Thames in £57m tender offer for US TV producer

By Raymond Snoddy

THAMES TELEVISION, the UK's largest ITV company, yesterday went ahead with a tender offer for Reeves Communications Corporation, an independent US television production company.

The deal values Reeves, mostly famous for situation comedies such as Gimme A Break and Kate & Allie, at around $99m (£57m). It would be Thames' largest ever acquisition.

Mr Richard Dunn, Thames managing director, said yesterday that the acquisition would strengthen both Thames as a company and its attempt to retain its franchise in the coming auctions.

Thames is hoping that the acquisition will increase its presence in the all-important US market which accounts for an estimated 65 per cent of audio-visual production.

Thames will pay for Reeves, which will be renamed Thames Television Inc. with $30m out of cash reserves and a $100m loan facility from National Westminster Bank, $30m of which is on a revolving basis.

In 1988 Reeves made pre-tax profits of $8.54m on turnover of $105.5m. The company makes much of its money from the syndication market – the selling of former network shows from re-runs on independent TV stations. However last year the company fell to losses of $14.9m on turnover of $79.25m.

Mr David Elstein, director of programmes at Thames, estimated yesterday that about three-quarters of the purchase price was accounted for by the programme library and the rest by the production company.

Mr Merrill Grant of Reeves will stay on to lead the existing team under new ownership.

Ms Bronwen Maddox, broadcasting analyst for stockbroker Kleinwort Benson, said last night that the deal had to be seen as high risk. "They're essentially paying for two shows and one man," Ms Maddox said yesterday.

Mr Dunn and other Thames executives were keen yesterday to distance themselves from the purchase by TVS Entertainment, another ITV company, of MTM, a US production company. That deal quickly went sour and MTM is expected to record a loss of up to $20m this year.

"The Reeves acquisition is fundamentally different in relative size, in scope and in opportunities for synergy that it offers," Mr Dunn said.

Thames believes that half-hour situation comedies are a more marketable commodity in syndication than the one-hour dramas such as Hill Street Blues that MTM specialises in.

Maxwell to pay £37m for rest of Pergamon

By Andrew Hill

MR ROBERT MAXWELL yesterday spawned another private vehicle called Pergamon to buy the outstanding shares in Pergamon AGB for £37.1m in cash, taking the market research group private.

The UK publisher already controls about 65 per cent of Pergamon AGB through private interests. If yesterday's agreed bid is successful it will leave Maxwell Communication Corporation as the Maxwell empire's only quoted company.

Pergamon AGB, which has been hit by rising interest rates, revealed it had received an approach from its majority shareholder last Friday after the shares rose sharply during the week, finally closing at 61p.

Yesterday's agreed bid comes from a new company set up for the purpose, Pergamon Market Research (PMR) – a namesake of Mr Maxwell's first publishing venture, Pergamon Press. It is offering 70p in cash for each of the outstanding ordinary shares, against a closing price of 66p, up 5p. PMR is backed by Maxwell Foundation, ultimate owner of many Maxwell interests.

PMR is also offering 100p for each preference share, and 70p for each loan stock unit.

Pergamon AGB is descended from the industrial group Hollis, which sold its engineering and merchanting interests to management last year. The professional services rump of the group bid £134m for AGB Research last September, but has since had to institute a £100m programme of disposals to reduce borrowings.

Sir Bernard Audley, AGB's founder who stayed on as chairman of the merged group, said yesterday: "As things have turned out, I welcome the present development because the balance sheet is not strong, the gearing is very high and the need for investment in market research is very great indeed."

He said he hoped in due course the market research business might return to the stock market, but at the moment it could not promise short term profits growth.

Equity Consort

Net asset value of Equity Consort Investment Trust ordinary shares rose to 582p at October 31, compared with 549p and from 898p to 964p per deferred share.

Half year earnings per ordinary were 18.47p (11.75p) and 24.95p (17.49p) per deferred. The interim dividend is held at 4.5p and a total of not less than 30p on the deferred and a final of not less than 15p on the ordinary was forecast.

Off with the old: on with the new

Paul Cheeseright looks at the scheme for winding up British Land

MR JOHN RITBLAT, the British Land chairman, has been worried for about a year concerning the discount of his group's share price to its net asset value. Last August he started working on a scheme with SG Warburg, the merchant bank, on how to bridge the discount.

The result arrived yesterday: a complex scheme which effectively runs down British Land and builds up New British Land, with shareholders having the chance to invest in the new company and to take out the proceeds from the sale of the old British Land portfolio.

Until their recent run up, British Land shares have been languishing around 300p against a net asset value published last March of 531p. The new scheme effectively puts a value on each share of 449p plus between 30p and 50p, depending on the calculation done to allow for the enhancement of British Land's net assets since last March.

The new company will be run like the old. It will be a property investment company with some dealing stock. It starts from about the same position the old company was in 10 years ago.

New British Land is being set up with a property and finance portfolio worth £399m – the properties are largely those held for dealing by the old company. Each property is worth under £25m.

New British Land is paying old British Land with 74m new shares and £200m cash. But old British Land is immediately buying £110m worth of convertible capital bonds in New British Land, making New British Land's net cash obligation for the properties £90m.

This £90m is effectively coming from NMB Postbank group, the Dutch bank. It is providing New British Land with a 10-year fixed rate unsecured loan of £50m and buying £40m of convertible capital bonds.

But the base of New British Land's equity is £11.7m, coming from Mr Ritblat and the old British Land management, which transfers to the new company. This sum buys 76.7m shares. But, of that total, 56.7m are subject to an option, the grant of which is related to the management's future performance. If the option cannot be exercised the shares go to old British Land.

The next tranche of New British Land's equity will be in the hands of old British Land shareholders. They are being offered in the form of a dividend of 13 New British Land shares for every 40 old British Land shares they already own. That accounts for 74m shares.

If, over the years, the management meets its performance targets then it will end up with 27.5 per cent of the diluted New British Land equity, old British Land shareholders with 60 per cent and NMB Postbank with 12.4 per cent. If the management fails to meet its targets then it will hold 7.4 per cent and the old British Land shareholders 80.2 per cent of the diluted capital.

Here then is a new company which will have pro forma net assets of £300.7m or, fully diluted, 107p a share. And it will have a Stock Exchange listing.

The old company will retain its listing but over the next five years it will be wound down, its remaining £1.1bn of property sold off as and when buyers appear with suitably large cheque books. It is these sales, in conjunction with the New British Land equity, which provide the opportunity for old British Land shareholders to jump over the discount at which their shares currently trade.

The shareholders will be paid either in dividends or through share re-purchases, or a mixture of the two, the better to minimise tax liabilities. But they will not know when they will be paid: the two regular dividends a year have ended.

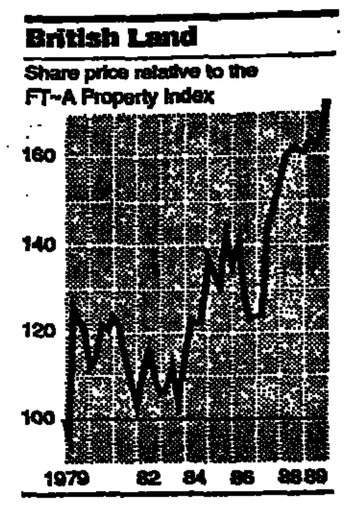
Immediately though, in addition to the grant of the New British Land shares, old British Land shareholders will be able to respond to a tender offer for the re-purchase of 22.7m shares – 10 per cent of the equity – at a price of 420p a share. This is around 124p more than the market price before the run up started last week.

There are, however, tax credits associated both with the repurchase and the grant of the New British Land shares. This points up one of the reasons why the sort of scheme British Land is undertaking has not been seen before.

Liabilities to capital gains tax have deterred the sale of properties from established portfolios. They have been a factor taken into account in the formulation of the traditional discount at which the property investment companies have traded on the market.

But the ability to offset advanced corporation tax against capital gains tax in the 1987 Finance Act and the equalisation of income tax rates with capital gains tax rates in the 1989 Finance Act have changed the playing field.

John Ritblat: "Hidden value is of no value if it cannot be realised."



Christian Salvesen progress pushes shares up 10p to 170p

By Jane Fuller

CHRISTIAN SALVESEN, the frozen food and industrial services group, gave the stock market a pleasant surprise yesterday with a 21 per cent increase in pre-tax profit from £27m to £32.6m in the six months to September 30.

The share price rose 10p to 170p on the news, which included turnover up 19 per cent to £188.4m (£158.8m) and earnings per share growth of 27 per cent to 7.79p (6.15p).

Star performer was the industrial services division which increased its trading profit from £10.1m to £13.8m.

Mr Chris Masters, who became chief executive two months ago, highlighted the advance of the Aggreko power hire business, which rents out generators for activities ranging from rock concerts to a variety of industrial uses. The company reckons to be in the top three in North America, Europe and South-East Asia.

In the US, Mr Masters said Aggreko had grown from two depots in Louisiana three years ago to 30 depots coast-to-coast, encompassing 20 per cent of the market.

The expansion in Asia had been boosted by the acquisition this year of Singapore's leading generator rental business.

With two thirds of profit coming from outside the UK, plus a spread of sectors among its customers, the power hire business was well insulated against UK economic difficulties, he said.

UK-based Salvesen Brick, however, had been affected by the downturn in the building industry, but through a strong sales effort it had not so far had to reduce output. Margins had come down, but the low-cost operations were well placed to gain market share.

The second biggest contribution came from the more traditional vegetable processing activities and the dedicated distribution work for Marks and Spencer. This division, known as specialist services, increased trading profit by 16 per cent to £11m.

An important factor was the opening of the Neasden distribution centre serving M and S in London.

After a good summer for vegetable crops, the amount of peas processed increased from 63,000 to 70,000 tons.

Less progress, however, was made by the distribution division, where trading profit advanced by 6 per cent to £5.8m.

Mr Masters said that while UK retailers used centralised and sophisticated distribution systems, this was less so on the Continent and in the US. In both those markets the company was switching the emphasis towards distribution rather than bulk cold storage.

But in France it had met fierce competition because of over capacity and a similar problem existed in the Los Angeles area. Bulk storage was prone to price wars, he said.

Better news from the US was that a distribution contract had been won from the Grand Union supermarket chain, in the New York area.

The interim dividend rises to from 1.7p to 2.5p.

● COMMENT

After a few disappointing years, in which analysts recall excuses such as a poor pea harvest or unforeseen problems on the Continent, Salvesen looks set to achieve its potential. Mr Masters is credited with both admitting the company's past mistakes and having an aggressive approach to profit. It does, however, remain to be seen how quickly UK-style food distribution will catch on with different cultures. There is less to quibble with at Aggreko, which apart from the scope for further geographical growth, is moving into mobile chilling equipment and air conditioners. Full year forecasts are for £60m to £61m, giving a prospective multiple of nearly 12. This is a fraction below the food sector and optimists believe that the company could continue its new-found role of outperforming it.

Shares in Builder Group advance 22p on rumours of a possible Emap bid

By Nikki Tait

SHARES IN The Builder Group jumped another 22p to 302p yesterday on news that the board had received an approach which might lead to an offer being made for the company.

Builder, which publishes specialist magazines and periodicals concerning the building and property industry, declined to elaborate on its formal statement or to say when it expected to make a further announcement.

There was also a formal "No comment" from Emap, the printing and publishing group which acquired a 9 per cent interest in Builder in August.

At the time, Emap, which has an acquisitive past, said that its intentions were friendly and requested a meeting to discuss its investment. Builder's directors said they would see Emap, but said any increase in the stake would be unwelcome and would not form "a constructive background against which such discussions could take place".

Yesterday, analysts were viewing Emap as the most probable suitor, although other some names – such as Reed, not thought to be likely – were also being mooted.

Builder came to the stock market via an offer for sale at 125p in 1988. However, the company said yesterday that more than half its shares remained in the hands of the founding Cox family and their descendents. Builder's pre-tax profits in the year to March 31 were £2.75m.

Saltire Ins Inv

Pre-tax profit at Saltire Insurance Investments for the half-year to September 30 fell from £274,473 to £146,279.

Investment income was £285,478 (£363,676) interest receiveable £2,161 (£14,111), underwriting commission nil (£8,995). Net asset value 79.4p (70.6p).

Good debut for UMECO

THE FIRST results of UMECO, the specialist engineering business, since its flotation on the USM, showed pre-tax profits up 19 per cent from £318,000 to £378,000 for the six months to September 30 1989.

Turnover rose 6 per cent to £5.17m. Tax was £111,000 (£78,000) and earnings per share came to 4.9p (4.4p). There is an interim dividend of 1.575p.

Mr George Metcalfe, the chairman, said management was very active developing each of the existing businesses.

DIVIDENDS ANNOUNCED

Albion ....fin	1.8	-	1.4	3.1	2.4
Avesco ....int	0.5	Apr 6	-	-	1.125
Avon Rubber ....fin	11.5†	-	10	16.5	14
BTP ....int	2.75	Feb 1	2.5	-	7
Caffyns ....int	5	Jan 15	5	-	11.5
Cranswick Mill §....int	1.85	Jan 29	1.85	-	5.55
Crystalate ....fin	3.9	Jan 31	3.9	6.1	6
Douglas (Robt M)....int	3	Feb 26	2	-	6.5
Embassy Prop § ....int	2	-	-	-	2.2
Equity Consort ....int	4.5	-	4.5	-	16.5
Greene King ....int	2.9	Feb 2	2.6	-	8.7
Hardanger Prop ....fin	19.875	-	15	28.125	22.5
Joseph (Leopold) ....int	3.1	Jan 5	3.1	-	15.85
Latham (James) ....int	4.25	-	4	-	10.75
Monks & Crane § ....int	1.3	Feb 2	1.3	-	3.83
Monotype Corpn ....int	nil	-	1.7‡	-	1.7‡
Norcros ....int	5☆	Feb 12	5	-	16
Rowlinson Secs ....int	0.24	-	0.24	-	1.35
Saatchi & Saatchi....fin	1.6	Apr 6	8.6	9	16
Salvesen (Chris) ....int	2.5	Feb 10	1.7	-	4.8
Tiphook ....int	2.7	Jan 31	2.15	-	7
UMECO § ....int	1.575	Feb 14	-	-	-
Whessoe ....fin	3.75	-	3	5	4

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ☆Carries scrip option. ‡For 15 month period

BOARD MEETINGS

TODAY

Interims- Airspring Corp, Channel Express, Clayhithe, De La Rue, Drummonds, Feedback, Graham Wood, Great Universal Stores, Greycoat, Inshops, Johnson Matthey, McDonald Martin Distillers, MS Intl, Middle Wittersrand, Philips Lamps, Phoenix Timber, Pilkington, Robertson Group, Zandpan Gold Mining.

Finals- Archer (AJ), Carr's Milling Inds, Grand Met, GWR, Lovell, Murry Enterprise.

FUTURE DATES

Interims-

Bromsgrove Inds	Dec. 18
Eve Grp	Dec. 14
Hunter Saphir	Dec. 14
Jurys Hotel Grp	Jan. 16
Lees (John J)	Dec. 15
Microlec Group	Dec. 14
Ross	Dec. 8
Westpool	Dec. 19
Finals-	
First Leisure Corp ml	Dec. 14
Greenfriars Inv Co	Jan. 26
Hewtin	Jan. 9
Thornton (GW) Hldgs	Dec. 13
Watson & Philip	Dec. 14
Witan Inv Co	Jan. 18

IT'S POSSIBLE

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Lyric by SID WAYNE

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There are two ways of looking at a volatile market. One way is cautious; battening down the hatches. The other way is positive; looking for the opportunities. If you want to look for the opportunities in venture capital, you should talk to us. Because we cover all aspects of the market; management start-ups, growth capital, MBOs and MBIs. We're confident we can help the right sort of people. If you're confident too, why not give us a ring? In total confidence, needless to say.

3i INVESTORS IN INDUSTRY

UK COMPANY NEWS

Market shakes off figures on strength of maintained dividend

Norcros down 37%: more job cuts

By Jane Fuller

NORCROS showed its vulnerability to the stresses in the UK building and retailing sectors in the half year ended September 30, with operating profit on continuing business down by 36 per cent to £17.75m, on turnover 25 per cent ahead at £232.1m.

Overall, group pre-tax profit fell 37 per cent to £18.32m (£29.12m), on turnover off 35 per cent at £232m (£356.74m). Earnings per share plummeted by nearly 5.8p to 8.3p.

This was despite the first full six months' impact of swapping, with Meyer International, the poorly performing *UBM* builders' merchant subsidiary for Crosby, a doors, windows and kitchens concern.

As the disappointing figures were expected, the market was more impressed by the holding of the interim *dividend at 5p*, and the intention to do the same for the 11p final. The share price rose 15p to 239p on the prospect of a 9 per cent yield.

The workforce, however, had *further disappointment* to come. Mr Michael Doherty, chief executive, said about 400 jobs, out of *10,000*, were shed across the divisions.

A similar number of redundancies were being imple*mented in the second* half, nearly all at the ceramics factories in Stoke on Trent. The ceramics division showed flat first half sales at £68.02m,but a 42 per cent fall inoperating profit to £5.35m. Mr Doherty said the weakness was caused by the build up of fixed costs over several years.

Job losses would continue next year, bringing the total cut to about 10 per cent.

Overall, the business disposals implemented by Mr Doherty since his appointment 20 months ago brought turnover *down* by 35 per cent, despite a £40m contribution from the acquisitions. But operating profit fell even more quickly.

Taxable profit included nearly £600,000 in interest received, against a £2.85m payment last time.

Together, building products and ceramics were split roughly equally between commercial and domestic work. Mr Doherty said the former was holding up while the latter had been hit since the May rise in interest rates.

The split was also 50/50 between new build and refurbishment and, unlike some managers in the sector, he said the businesses had not experienced a flourishing of refurbishment to replace the lost new build.

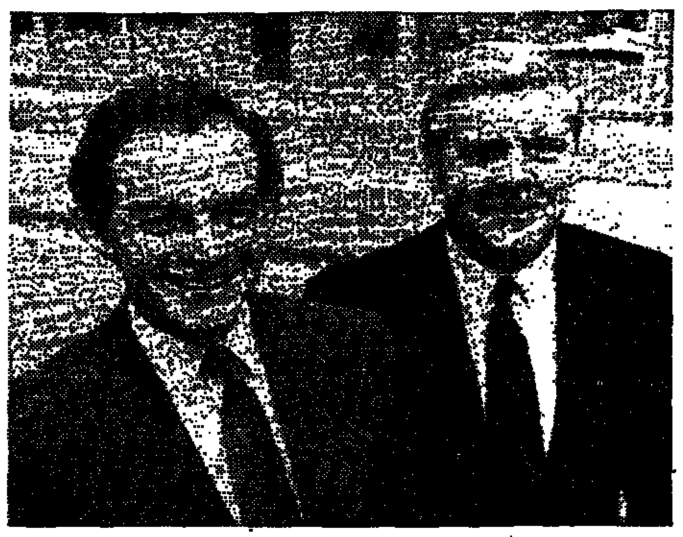
Building products, which is the largest division having absorbed Crosby, saw its turnover increase by 68 per cent to £102.62m, while operating profit grew 36 per cent to £8.76m. Three small factories were closed in the first half.

The print and packaging division also saw operating profit fall, to £4.73m (£6.3m) on turnover *slightly* up at £46.48m. Mr Doherty said many of the packages and labels went to retailers, which had also been under pressure.

"Margins still remain more than 10 per cent, which the *majority of sectors* would be delighted with."

The property division, which contributed less than £1m compared with last year's £8.6m (including nearly £6m from the sale and leasebacks), was expected to do much better in the second half as developments were sold.

See Lex



Michael Doherty, chief executive of Norcros (left) and Robert Alcock, finance director, putting on a brave face after announcing a 36% fall in interim profits.

High interest rates hit Rowlinson

The adverse effects of high interest rates on property disposals resulted in a 26 per cent fall in interim pre-tax profits at Rowlinson Securities, the property development and investment group.

Although gross rental income improved slightly to £940,000 (£705,000), sales by the development and contracting divisions declined from £8.84m to £3.76m. Group pre-tax profits for the six months to September 30 fell from £1.63m to £1.2m.

Tax took *£421,000 (£569,000)* after which earnings per 10p share were left at 6.27p (8.45p). The interim dividend is again 24p.

In spite of the adverse conditions the company was optimistic that its *financial* strength and geographical spread would enable further growth in the second half.

Ulster Bank up 15%

Ulster Investment Bank, the merchant banking subsidiary *of Ulster Bank*, part of National Westminster Bank group, announced after-tax profits for 1989 up 15 per cent to I£6.94m. Assets rose to I£1.1bn (I£873m).

Greene King flat at £9.4m

GREENE KING & Sons, the East Anglian brewer, yesterday announced a marginal increase in pre-tax profits, from £9.13m to £9.41m for the six months to October 29, writes John Ridding.

Strong sales of its beers, which include Greene King IPA and Harp Lager helped lift trading profits by 21 per cent, from £6.9m to £8.36m. But increased interest payments of £461,000 (£32,000), resulting from the expansion in the group's capital expenditure, limited progress at the pre-tax level.

Group turnover increased to £56.07m (£53.21m) and earnings per share edged ahead at 15.7p (15.4p). *The interim dividend* is raised to 2.9p (2.6p).

During the period, Greene King continued with the reorganisation of its estate. It purchased nine new public houses and one site, and three further pubs are *under construction*.

The group's associate companies also expanded. Butterfly Hotels opened a new hotel in Peterborough, and Big R Leisure opened a new bowling alley and a roller skating rink.

Mr Bridge said that the company had deferred a number of property disposals because of the depressed state of the property market. As a result, property profits fell from £1.73m to £1.16m.

● **COMMENT**

The slowing rate of property disposals and rising interest charges are making themselves evident at Greene King, offsetting good brewing gains and prompting a fairly pedestrian first-half performance. Both of these factors are set to continue and will be compounded by a more difficult beer market as household expenditure is reined in. In the longer term, Greene King's strong brands make it a potential beneficiary of the Government's *shake-up of the* industry. But even here, gains will depend on the extent to which the increased volumes of freely traded beers prompts price competition and reduced margins. All of this suggests that, on fundamentals, a prospective multiple of just over 13 – assuming pre-tax profits of £20m for the full year – is too high. The suggestion is reinforced by the fact that Elders IXL has been having difficulty finding a home for its 13 per cent stake, reducing the probability of a bid and *raising the prospect* of increased supply on the market.

Cray reveals mbo attempt made two months ago

By Nikki Tait

AN ATTEMPT to mount a *management buyout bid* was made two months ago at Cray Electronics, the electronic equipment manufacturer which announced in November that a review of accounting policies had slashed previously-stated profits by two-thirds, it was disclosed yesterday.

However, the approach was rejected by the board, on the advice of the company's advisers, and never notified to shareholders.

The information surfaced at an extremely unhappy, if somewhat resigned, extraordinary meeting of shareholders yesterday. This was called to approve an alternative reconstruction plan for the group, involving the *injection of a new management team* - comprising former UEI directors, Sir Peter Michael, Mr Jeffrey Harrison and Mr Jon Richards - and the implementation of share subscription arrangements for the trio. These could give them over 20 per cent of Cray's equity.

All motions were passed on a show of hands, with proxies also heavily in favour. The new board immediately began work, announcing that they would review commitments and pay-offs to former directors and that they planned to sell two divisions, including the defence interests.

News of the mbo approach came in a question from Mr Les Kyle, managing director of one of Cray's more recently-acquired subsidiaries, who wanted to know why it had not been put to shareholders.

Mr Stephen Trudgill, the *non-executive director* who adopted the chairman's role temporarily following the boardroom resignation of Mr Bernard Collins, said that directors had considered the price offered insufficient. After prompting from advisers, Mr Trudgill added that investigations had showed there to be no serious financing behind the approach.

An offer price around the 75p level is believed to have been mooted by the buyout team, with Charterhouse acting as advisers. Funding was not in place, however, and would have been dependant on further information about Cray's financial position, which was never forthcoming. S. G. Warburg, Cray's merchant bankers, said yesterday that their advice at the time was that funding was very unlikely, and that risks attached to proceeding with the offer were very high.

Yesterday's meeting - attended by some 100 people - began with a lengthy preamble from Mr Trudgill, during which he confirmed that the preliminary announcement - stating pre-tax profits to be £17m in 1988/9 - was vetted by Ernst & Young, Cray's auditors. The review by Price Waterhouse later suggested that the figure should be £5.44m.

Attempting to diffuse shareholder unrest, Mr Trudgill announced that the buy-in team had said it would review the arrangements with former directors "as a matter of priority".

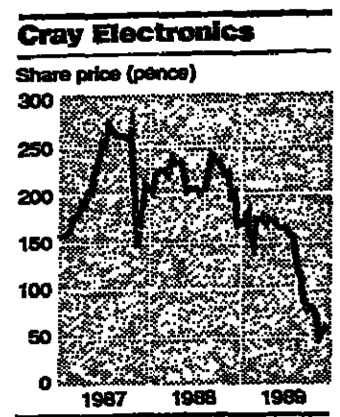
Mr Collins, the group's former chief executive as well as chairman, was given a fixed-term service contract in August worth £225,000 a year until July 1999, while Cray's former finance director received a £125,000 pay-off with another £40,000 to augment his pension.

That did not stop several former employees and vendors of businesses to Cray expressing their horror at the situation. "Directors leaving Cray's sinking ship have not only been well-provided for, but seem to have taken the life-boats as well," commented Mr David Hopkins, to general applause.

Postel, the fund managers for the large British Telecom and Post Office pension funds, also registered their unhappiness at the extent of the share subscription arrangements offered to the new management. It said that it would not vote against, in the absence on any alternative, but expected "extraordinary rewards" in return for the "extraordinary incentives".

After meeting, a number of people who had sold companies to Cray recently were talking about taking legal advice, although Sir Peter said that no moves had been registered with the company itself.

The new team announced later that it was immediately putting the defence division, with broke even on sales of £21m last year, up for sale, together with the loss-making Cray Advanced Materials subsidiary. It also plans to shed the divisional structure of the head office.



Monotype losses increase to over £1.3m in first six months

By John Ridding

MONOTYPE CORPORATION, the manufacturer of typesetting equipment, which has *agreed a £32m takeover by a* US investment company but which has subsequently attracted the interest of Mr Robert Maxwell's Mirror Group Newspapers, yesterday announced higher pre-tax *losses for the first half*.

The deficit for the six months to the end of September rose from £908,000 to £1.29m on sales down from £22.61m to £21.13m. Losses per share were reduced from 6.21p to 5.71p, reflecting an increased number of shares in issue, and the interim dividend has been passed.

Mr Roger Day, chairman, said that the reason for the *downturn was the sale of Chel*graph Products, a profitable business but which Monotype felt had reached a "technical plateau". In addition, the group's borrowings, which now amount to about £17m, *prompted a rise in the interest* charge from £471,000 to £748,000.

According to Mr Day, the underlying trading position improved during the period and margins and volumes had recovered in the September quarter.

Monotype also announced yesterday that property revaluations, including the group's *new headquarters building*, had yielded a surplus of £4.41m.

The offer document from Pointplus, the vehicle for King Black & Associates, the US investment company, was sent to shareholders yesterday. But Mirror Group Newspapers has indicated that it may make a bid at a price slightly higher than the 150p per share offer from Pointplus. Yesterday the shares were unchanged at 155p.

UK COMPANY NEWS

Uncertainty from bid overshadows strong trading performance

Tiphook doubles to £10.1m

By Andrew Hill

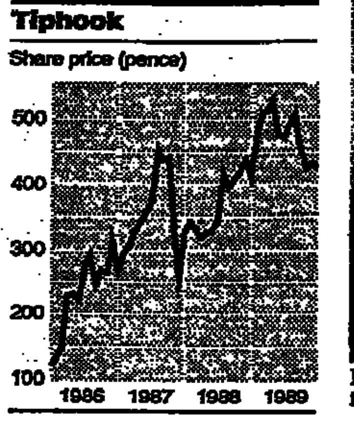
TIPHOOK, the UK container rental company involved in a long-running $1.02bn bid for Sea Containers, more than doubled pre-tax profits to £10.1m in the half-year to October 31, against £4.5m last time.

Mr Robert Montague, chairman, said the economic climate had not had an adverse effect on the core business in the first half, thanks to strong financial controls. Also, customers were renting, rather than buying trailers and containers, due to economic uncertainty.

He could not comment on the bid because the UK group and its Swedish partner Stena, a private shipping company, are currently fighting a legal battle with Sea Containers in Bermuda, where the ferry and container group is registered.

Tiphook's turnover rose from £45.1m to £74.8m and earnings per share were up from 12.8p to 19.6p. An interim dividend of 2.7p (2.15p) was declared.

Mr Rodger Braidwood, finance director, said he thought the Sea Containers bid had overshadowed Tiphook's strong trading performance.



In Bermuda, Tiphook and Stena are trying to win an injunction which would prevent Sea Containers from dealing in its own shares, following a setback at the beginning of last week, when Bermuda's chief justice ruled that the purchase of shares by Sea Containers subsidiaries was legal. The judge could decide whether to allow an injunction by the end of this week.

Robert Montague: strong financial controls

Sea Containers is planning to dispose of $1.1bn of assets, to fund a $70-a-share tender offer for its own shares, to fight off the $63-a-share offer.

Mr James Sherwood, Sea Containers' president, has yet to set a date for a special meeting at which investors would consider the alternatives.

● COMMENT

Strip out the risk involved in the Sea Containers bid and Tiphook's shares look rather attractive. Trading is strong and even if recession bites in the UK, the group is probably sheltered by its well-spread international business. Analysts are forecasting pre-tax profits this year of as much as £35m – a prospective p/e of about 8 on yesterday's closing price of 442p, up 8p, compared with 512p when the offer was launched. However, bids fought in Bermuda, London and New York over more than six months must take their toll. Tiphook's shares rose after last week's unfavourable court decision, which dispelled some investors' concerns about what might happen to Tiphook's finances if the bid were successful. On the other hand, the strength of the first-half performance indicates that management might well be up to that sort of challenge. The downside should be limited – rights issues are already in place to fund a part of the Sea Containers bid – but cautious investors might prefer to wait and see.

Reorganised BTP 41% ahead and benefits from disposal

By Vanessa Houlder

BTP, the specialist chemical and industrial group, yesterday announced a 41 per cent increase in profits before tax and exceptional items from £4.61m to £6.51m for the six months to September 30.

An exceptional profit of £3.1m from the group's sale of its 50 per cent holding in Desoto Titanine, a specialist coating manufacturer, lifted the pre-tax total to £9.6m. Turnover was £60.12m (£44.77m).

Mr Frank Buckley, chairman and chief executive, said that the results highlighted the benefits of the re-investment and refocusing strategy of the past and current financial year.

The operating profit of the chemical division increased from £3.18m to £5.28m while that of the industrial division rose from £1.49m to £1.83m.

Mr Robert Martin, finance director, said that the chemicals and industrial division had produced organic growth of 30 per cent and 20 per cent respectively.

The gearing is under 20 per cent. More moves taking BTP further into specialist chemicals and reducing its dependence on the UK, are being considered, said Mr Martin.

Earnings per share were 6.8p (excluding exceptional items) against 4.92p, an increase of 38 per cent. An interim dividend of 2.75p (2.5p) has been declared.

● COMMENT

BTP's metamorphosis from the bulk storage and chemicals company British Tar Products has, it might seem, been vindicated. These results, which were at the top end of expectations, demonstrate the benefits of its move into specialist niches. The chemicals, which range from brewing products to textiles finishings (which have been boosted by legislation on flame retardants), have so far shown little sign of a downturn and promise to steam ahead for several years to come. Even the industrial division, which has been reduced in size, has generally held up well. However, the company has a slightly chequered image in the City and the thinly-traded shares have underperformed this year. Assuming it makes profits before exceptional items of £13.3m this year, the shares up 3p to 137p are on a rating of 9. Taken together with a generous prospective yield of 7.5, the shares offer respectable value.

Spurs' team rides over investors' tackles

By John Ridding

TOTTENHAM HOTSPUR'S annual meeting, billed as a needle match between a divided board and a crowd of angry shareholders, proved in the event a relatively easy fixture for Mr Paul Bobroff, the company's chairman.

However, the defending team of Mr Bobroff and his colleagues on the board did have to field a number of awkward questions.

"Why did you step down as chairman only to come back one week later?" asked Mr Hamilton-Fairley, who added that "we find these boardroom shenanigans disconcerting."

"Why are costs up by 50 per cent, administration expenses up by 80 per cent and profits down by half?" demanded Mr Darbishire who believed that last year's results were "not a tribute to good management."

But Mr Bobroff and his board handled the objections with relative ease. The reported split between himself and Mr Tony Berry, former chairman of Blue Arrow and a fellow Tottenham director with about 8 per cent of the shares and Mr Irving Scholar, the football club chairman, failed to manifest itself.

Similarly, shareholder discontent about the level of the club's indebtedness and reports that this would limit Spurs' activity on the transfer market, was limited to grumbles about the departure of Chris Waddle, the talented striker, to Marseille for a record £4.5m.

Mr Bobroff admitted that borrowings at Spurs – the only UK football team with a full market listing – had risen from the £7.5m reported in the accounts for 1989. He declined to specify the current level, estimated at up to £10m, but said that the company's financial position had been much as expected since the end of May.

In respect of his abrupt departure and reinstatement at the head of the group, Mr Bobroff said that "the board has an agreed policy and strategy" and that "any concerns on the part of shareholders will be allayed over the next few months."

But before long, attention was focused on football, the main interest of most of those present - even though the questions retained a financial ring. "What" asked Mr Graham Betts, "is the condition of our asset who broke his leg at Manchester United?"

Perkins Foods to pay up to £19.4m for West German frozen pizza maker

By Andrew Bolger

PERKINS FOODS, the fast-growing food manufacturer and distributor, has agreed to pay up to £19.4m for Peppino's Pizzas, a West German maker of frozen pizzas.

Perkins, the former John Perkins Meats which is quoted on the USM, plans to raise £18.8m by a placing and open offer of 20.8m shares at 92p each. On the stock market its shares dropped 8p to match that price.

The company also said it was in negotiation with the proprietors of two small European food businesses and hoped to acquire them for a maximum £3.5m in the near future.

The Peppino's acquisition, Perkins first in West Germany, was a further step in the creation of a broadly based Northern European food group.

The group has three core activities – frozen food manufacturing and trading; marketing and distribution of fresh produce; and mushroom processing and distribution.

Mr Howard Phillips, chief executive, said that after this acquisition 70 per cent of Perkins' profits would come from the Netherlands, 20 per cent from West Germany, and the remainder from the UK.

Peppino's supplies a range of frozen, thin-base pizzas to south German supermarket chains and also supplies one of the national home delivery services.

Initial consideration for Peppino's is £12.3m on warranted profits of £1.7m for 1989. The maximum deferred consideration, subject to profits, is £7.1m, payable over four years.

To raise funds for the acquisition, 20.8m new ordinary shares are being conditionally placed by Guinness Mahon with institutional clients of James Capel, subject to recall to satisfy applications under the open offer.

Shareholders can apply for those at 92p each on the basis of one new for every four ordinary held; one for every four sterling convertible preference shares; and one for every 16 Deutsche Mark convertible preference shares.

Funds raised in excess of the cash consideration for the acquisition will be used initially to reduce Perkins' level of gearing. Perkins forecast that its final dividend for the year to December 31 would be at least 3.1p (2.5p), an increase of 24 per cent.

Bogod profits hit by French operation

Pre-tax profits of Bogod Group, formerly Bogod-Pelepah, seller of sewing machines and parts, were halved to £45,000 in the six months ended September 30, 1989.

This was after a £63,000 debit, taken as an exceptional charge, for the setting up and the trading losses of Bogod France.

Turnover rose slightly, from £3.05m to £3.25m. Taxable profits last time were £98,000.

Earnings worked through at 0.0636p (0.6005p) per ordinary 10p share and 0.1272p (1.201p) per 'A' restricted voting share. The interim dividend is held at 0.1p.

Directors said it would still take some time for the Bogod France operation to make a positive contribution to group profits.

PUBLIC WORKS LOAN BOARD RATES

Effective December 6

Years	Quota loans repaid by EIP†	Quota loans repaid At††	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* repaid At††	Non-quota loans A* repaid at maturity§
1			14⅛			14⅞
Over 1 up to 2	13¾	13¾	12⅝	14¾	14¾	13⅜
Over 2 up to 3	13	12⅞	12⅛	14	13⅞	12⅞
Over 3 up to 4	12½	12⅜	11¾	13½	13⅜	12½
Over 4 up to 5	12⅛	12⅛	11⅝	13⅛	13⅛	12⅜
Over 5 up to 6	12	11⅞	11½	12½	12⅜	12
Over 6 up to 7	11⅞	11¾	11½	12⅜	12¼	12
Over 7 up to 8	11¾	11⅝	11¼	12¼	12⅛	11¾
Over 8 up to 9	11⅝	11⅝	11⅛	12⅛	12⅛	11⅝
Over 9 up to 10	11⅝	11½	11	12⅛	12	11½
Over 10 up to 15	11⅜	11	10⅝	11⅞	11½	11⅛
Over 15 up to 25	10¾	10½	10¼	11¼	11	10¾
Over 25	10⅜	10¼	10⅛	10⅞	10¾	10⅝

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

UK COMPANY NEWS

Dividend up despite profits decline to £12.18m

Poor tyre sales blamed for downturn at Avon Rubber

By Clare Pearson

PRE-TAX profits of Avon Rubber, the tyres and industrial polymers and inflatables concern, fell from £16.27m to £12.18m in the year to end-September.

The company had earlier warned City analysts that adverse conditions arising from poor sales of replacement tyres at home, and of winter tyres in Continental Europe, had affected it during the period under review.

Inflatables too had a bad year, which was largely ascribed to a downturn in the US marine products market.

But the final dividend is upped to 11.5p (10p), making 16.5p (14p) for the year. Earnings per share, adjusted for a one-for-four rights issue in June, fell to 41p (65.4p).

Mr Tony Mitchard, chief executive, said he expected Avon to make progress in the current year. But uncertainties over the US car market, the UK economy, and the winter weather made the extent of progress very difficult to project.

This summer Avon took two measures to reduce the proportion of its business taken up by tyre production: in May it sold – for £16.5m – 70 per cent of Motorway, the UK retail operation, to SP Tyres, the Sumitomo Rubber Industries subsidiary, and the next month it announced the £38m purchase of Cadillac, a US rubber and plastics group.

But since the purchase, Cadillac has been hit by sharp cutbacks in activity within the US motor manufacturing industry which has seen a 19 per cent fall in production of passenger cars in the last quarter.

Borrowings to finance the Cadillac purchase, the cost of carrying tyre stocks, and higher interest rates contributed to a rise in interest payable to £4.68m (£2.64m).

Operating losses at Motorway amounted to £900,000 in the period to May, against a £607,000 in 1988. Since May, it has put in a £280,000 loss to the £105,000 (£227,000) profit from related companies.

Despite low overseas sales of its S10 respirator, the industrial polymers activities made £10.27m (£9.42m) at the operating line. Inflatables put in £474,000 (£1.05m). Tyres at home and overseas made £6.1m (£7.29m). Turnover was £228.59m (£226.86m).

● COMMENT

This latest spate of bad news left Avon Rubber's shares, now down to around 435p against a rights issue price of 500p, virtually unmoved. On a historic p/e of about 10.3, they still tower over their sector – which seems hard to justify especially considering the darker than recently expected environment for Cadillac, and Motorway's continuing problems. However, bearing in mind Avon's band of loyal supporters, analysts yesterday thought the shares were likely to drift near-term rather than slump. Current year pre-tax profits of about £17m were pencilled in, giving a prospective p/e above 9; but much depends on what happens to US car production, as well as how much snow we get in the coming months. All will be clearer by early spring. The company still has a number of very positive aspects: transfers of technology between Cadillac, which it aims to develop away from the automotive market, for and its European business, for instance, and the benefits from a weaker pound arising from its rapid enhancement of non-UK business in recent years.

Grown in ongoing activities lifts Cape by 33%

By Andrew Bolger

CAPE, the fire protection, insulation and building products group, yesterday announced a 33 per cent increase in pre-tax profits to £8.4m in the half year to September 30.

Cape, a former asbestos maker which is 68.8 per cent owned by Chartered Consolidated, said turnover had increased by 11.5 per cent to £90.4m.

Mr Jeffery Herbert, chairman, said both the building products and industrial services division had contributed to this performance, which was achieved in spite of uncertainties being reflected in the market towards the end of the six-month period.

Shareholders' funds stood at £63.5m (£54.2m). Net cash balances at September 30 totalled £14.4m.

Mr Herbert said the recently announced decision to close the manufacturing operations of Cape Uni-Chem in Bowburn, County Durham, would end Cape's involvement with the manufacture and sale of any asbestos products. The plant, which had been operating on a breakeven basis, would close early in 1990.

Another chapter was closed in October when the House of Lords refused to hear an appeal on behalf of 206 people in Texas who, supported by the US Government, had claimed $15.5m from Cape and a subsidiary over asbestos-related injuries.

Cape also no longer has any South African interests following the disposal in October of Cape Contracts, its wholly-owned South African contracting subsidiary.

Mr Herbert said high interest rates were inevitably having an impact on certain of Cape's UK markets and the medium-term outlook remained unclear. However, he was confident about the future in view of Cape's current cash resources, the end of the asbestos case litigation and the group's emphasis on exports.

Earnings rose to 13.2p (10.3p). An interim dividend of 2.5p (2p) was declared.

Hardanger Props lifted to £8.4m

Hardanger Properties, the Worcester-based property developer, lifted pre-tax profits by 19 per cent from £7.05m to £8.37m in the year to September 30.

Turnover slipped from £27.57m to £26.21m, though earnings were up 29 per cent to 85.8p (66.6p). The final dividend is increased 32.5 per cent to a recommended 19.875p to make 28.125p for the year.

Second half downturn leaves Crystalate 49% lower at £3m

SECOND-HALF profits at Crystalate Holdings reached only £618,000, and left the full year showing a 49 per cent reduction. The final dividend, however, is being maintained.

Lord Jenkin, chairman of this electronic products maker, said the result was a serious disappointment and management was taking action to cut costs and restructure as appropriate.

"We have taken major action to respond to current market trends; we are continuing to invest in advanced manufacturing equipment and facilities", he stated.

The share price had already suffered after the group issued a profits warning last August. Yesterday, however, it rose 10p to 62p as the result was not as bad as the market feared.

Turnover for the year ended September 30 was only marginally lower at £114.72m (£117.96m) but the pre-tax profit fell to £2.91m (£5.68m).

Return from resistive products in the US and Barbados dived 32 per cent and the systems side showed a £1.67m downturn into loss; that was exacerbated by a near doubling to £1.64m in interest charges.

Net borrowings had doubled to £24m by the year-end and compared with shareholders funds of £20m.

Lord Jenkin said the increase was partly to finance a significant capital investment programme in the UK and US, and partly to finance greater than anticipated working capital.

He explained, however, that there would be a significant reduction in borrowing as the group had decided to sell Besson and CGCIE, and also planned to reduce working capital.

Besson is the troubled telecommunications division, and its problems intensified in the first half as orders from some major customers fell away.

Detailed negotiations were proceeding for its sale. CGCIE is the French operation; it was profitable as a manufacturer and refurbisher of military and civil telecommunications equipment, but did not fit well with the rest of the businesses.

On prospects Lord Jenkin said over 50 per cent of business was in resistive products where the group had high market shares, a strong order book and, in the main, good margins.

Cost reduction programmes should make further progress.

Although systems had a bad year, contract assembly was a growth market. A more satisfactory performance was expected in the current year.

After extraordinary charges of £5.97m (£2.49m), including reorganisation costs and losses on businesses for sale, there was a loss for the year of £3.7m (profit £1.79m). Given that this was due to extraordinary provision and given the prospects of reduced borrowing, the final dividend is again 3.9p, which makes the total 6.1p (6p).

Leopold Joseph warns on profits

By David Lascelles, Banking Editor

LEOPOLD JOSEPH, the merchant banking group, warned yesterday that profits in its current financial year might not match last year's because of the worsening economic scene and rising costs.

In its interim statement yesterday, the bank said that net profits for the half year to September 30 were "comparable" with those of the previous year. The group had also attracted new customers and increased revenues.

But there had been "additional costs due to our established policy of laying secure foundations for future growth. In consequence, the outcome for disclosed profits for the full year may not repeat the progress of recent years." Last year, net profits rose 43 per cent to £2m.

The unchanged interim dividend of 3.1p will cost £162,975.

Construction equipment helps lift Robert Douglas by 41% to over £5m

By Andrew Taylor, Construction Correspondent

PRE-TAX profits of Robert M Douglas, the building, civil engineering and construction equipment group, increased by 41 per cent, from £3.72m to £5.23m, during the six months to the end of September.The shares closeds 8p higher at 438p.

Profits from construction equipment, which accounted for just under half of profits, almost doubled. This mainly reflected strong demand for scaffolding and form work. The increase in profits from plant hire was more disappointing because of a fall in UK housebuilding, said Mr John Douglas, chairman.

The group had only a small housebuilding business. Therefore it had been less exposed to the decline in this market than other construction groups which had much bigger housebuilding operations.

Mr Douglas said there had been some signs that private sector retail and office development in London and the south east were beginning to decline. The office and industrial markets in the Midlands, where the group was well placed, however, remained strong.

Value of the group's order book had risen to £316m by the end of September compared with about £260m at the beginning of the year. The settlement of several claims would boost construction profits in the second half.

Mr Douglas said that increased investment in roads and the water industry would underpin order books during the first half of the 1990s.

Turnover in the six months increased from £129.38m to £161.17m. Earnings per share rose by 37.7 per cent to 20.8p (15.1p) and the interim dividend is lifted from 2p to 3p.

NEWS DIGEST

Whessoe up but turnover tumbles 41%

WHESSOE, the pipework fabricator and engineer, yesterday reported a 35 per cent increase in pre-tax profits from a 41 per cent reduction in turnover.

The profits figure of £4.78m compared with £3.55m last time and comprised £4.01m (£3.07m) from engineering and £777,000 (£480,000) from instrumentation and control.

This result was struck on turnover of £58.44m (£99.6m) and reflected the dowturn in its heavy engineering division.

Whessoe announced in July that it planned to close its workshops in Darlington, County Durham, where it was experiencing difficulty in finding sufficient work to meet its capacity.

The company said that the prevailing economic circumstances in the UK were not as favourable as it would wish and its new management team was faced with considerable challenges.

The beard believed, however, that the group was more robust as a result of the actions taken and was now better able to take advantage of the opportunities open to it.

After tax of £1.56m (£353,000), earnings per share were left unchanged at 17.5p, and the directors propose to pay an improved final dividend of 3.75p (3p) making a total for the year of 5p (4p).

Interest rates halve profits at Caffyns

Despite a rise in turnover from £66.46m to £69.62m, profits were more than halved at Caffyns, the Sussex-based motor dealer, in the six months to September 30. The decline, from £1.5m to £652,000, had been warned of in June and was attributed by the directors to pressure on margins and higher interest rates.

The problems are expected to continue this winter, but the directors are hopeful that by the middle of next year an upturn will be seen.

An exceptional credit of £407,000 (£380,000) was the surplus on the disposal of properties minus the cost of rationalisation. The interim dividend is maintained at 5p from earnings per share of 16.2p (42.1p).

J Latham down but increases dividend

A mixed second quarter led to James Latham showing a reduction in profit, from £1.85m to £1.58m, for the half year ended September 30.

This timber importer, merchant and veneer panel maker had shown record figures in the opening three months.

Turnover in the half year moved up to £31.85m (£29.64m), but trading profit was little changed at £2.44m (£2.39m). Earnings dropped to 19.96p (23.31p), but the interim dividend is raised to 4.25p (4p). Profit in the 1988 half included £147,000 surplus on land disposal.

Noteworthy performances were achieved by the northern-based companies and there had been a positive return on profitability by Richard Graefe.

Embassy Property vaults to £0.85m

All-round growth helped pre-tax profits vault from £247,000 to £854,000 at USM-quoted Embassy Property Group in the six months to September 30. Turnover rose by a more modest 30 per cent from £7.09m to £9.18m.

Within the profit figure, property development and trading advanced to £377,000 (£193,000); residential development to £152,000 (£67,000); construction and shopfitting to £279,000 (£122,000); and property investment to £201,000 (losses £1,000).

After tax of £307,000 (£89,000), earnings per share were 7.1p (nil) at the basic level and 6.9p (nil) fully diluted. The maiden interim dividend is 2p.

Mr Roger Holbeche, chairman, said that, while the general economic situation was having an effect on certain of the group's activities, the decision earlier in the year to capitalise the majority of its general borrowing rates, together with the spread of activities, would help protect the group's performance in the coming months.

Northamber hit by market conditions

Northamber, a supplier of computers, computer printers and peripheral products, increased its turnover by 13.2 per cent from £47.88m to £54.22m in the half year to October 31. But high interest rates and the decision to concentrate resources on customers with a quality credit rating with the resultant lower margins, left pre-tax profits down by 21.1 per cent to £2.15m against £2.72m.

Mr David Phillips, the chairman, said in the first quarter the cost controls and continuing efficiency measures that had been introduced over the past year negated the effects of slower markets, but during the second quarter, the figures were finally eroded by the further worsening of market conditions.

Operating profits for the period fell to £2.64m (£3.22m) and interest payments were little changed at £491,000 (£495,000). After tax of £721,000 (£969,000) earnings per share emerged at 8p (10.3p). Net assets per share were 107p compared with 89.9p and 98.5p at the April 30 year end.

All-round growth at Cranswick Mill

All aspects of the Cranswick Mill Group performed well in the half year ended September 30, and profits rose from £315,000 to £434,000.

Turnover of this USM-quoted pig feed and marketing group was ahead £3m to £31m. Earnings rose to 4.2p (3.1p) but the interim dividend is again 1.85p.

Mr Richard Marginson, chairman, said results of the feed division were pleasing, with market share being maintained.

Albion up 24% but remains cautious

Albion, manufacturer and retailer of tailored menswear, recorded a 24.4 per cent increase from £764,000 to £951,000 in pre-tax profits for the year to September 30 on turnover which rose from £9.69m to £11.65m.

The statement had a cautionary tail, however. The board stated that there was now increased evidence that the Government's anti-inflation measures were curbing consumer spending.

This had resulted in a shortened order book and competition for new business had become intense. Pressure on margins would continue so long as interest rates remained high.

Net operating income last year was up from £538,000 to £804,000 but other income slipped to £189,000 (£226,000). The share of losses of an associated company amounted to £43,000 (nil). Tax charged was £304,000 (£228,000) and there was a debit of £70,000 (£82,000) for minorities and an extraordinary charge of £15,000 (£50,000 income).

Earnings per share were 15.4p (12.1p) for the dividend total which, with a proposed final of 1.8p, is 3.1p (2.4p).

Monks & Crane falls sharply

Profits fell sharply at Monks & Crane, USM-quoted distributor of industrial tools and fixings, in the six months to September 30. The taxable result of £824,000 compared with £1.22m in the previous first half.

Turnover rose slightly from £23.18m to £23.74m, but the share of profit from associated company's fell to £32,000 (£80,000) and net interest payable jumped to £397,000 (£110,000).

The directors expect trading to improve during the second half as measures have been taken to reduce overheads and achieve higher margins.

In the first half an exceptional loss of £122,000 (nil) arose from the closure of branches. The interim dividend is held at 1.8p on earnings per share of 2.7p (4.6p).

LETTERS

Governments and banks

From Mr Bruce Leeming.

Sir, One can only sympathise with Lord Marshall's unenviable position in the imbroglio concerning the future of nuclear power in the UK, brought about by the impending privatisation of the electricity industry.

He is quoted as saying that the problem of unexpectedly high costs, which has caused the Government to drop the nuclear sector from the sale programme, has arisen principally because "The banks wanted full government guarantees of the debt as well as assurances that all significant risks would either be passed through to consumers or carried by Government itself" (December 1). It is not Lord Marshall's fault, of course, but regrettably the banks' attitude is absolutely right.

In October 1985, 22 sovereign states which were members of the UN-sponsored International Tin Council chose to walk away from a $1bn debt commitment to a number of international banks, City brokers and merchants. Hiding behind legal technicalities, the governments in question – led by the EC grouping – have sought for the past four years to renege on the ITC's contracts, although recently there have been reports that they may finally be shamed into an out-of-court settlement far short of the true amount.

At the time of the default many disinterested and far-sighted individuals voiced their anxiety about the serious precedent being set. On a BBC *Analysis* programme in November 1985 a senior banker stated: "The lesson we are learning is to take an entirely different view of the way we lend to governments and, among others, nationalised industries. . . (the 22 governments' action) is a fundamental step in the wrong direction."

Throughout, the most obstructive ITC member has been the EC. Judging by the Prime Minister's cautious approach today to European monetary integration, the messages of the tin crisis have not been lost on sincere and realistic politicians, as well as on bankers. To its credit, Her Majesty's Government was alone prepared to stand by its tin debt obligations: however, Lord Marshall's woes basically derive from the blow to commercial confidence suffered generally at that time.

Bruce Leeming,
Solars,
Chiddingfold, Surrey

Developing countries' tariffs

From Mr Michael Davenport.

Sir, As David Buchan says (December 1), as far as EC trade concessions are concerned, the 66 ACP states have been shoved into the backseat by the new "colonies" in Eastern Europe. But it is not clear that ACP (Asia, Caribbean and Pacific) tariff preferences, as opposed to aid hand-outs, have been of significant value.

Non-ACP developing countries of Latin America and Asia have expanded total crude and processed tropical goods exports to the EC market over the last decade more rapidly than the ACP states whose exports are admitted tariff-free.

Trade data does not indicate that the ACP states have performed relatively better in, for example, processed coffee and cocoa, refined vegetable oils, string and cordage, where their tariff preferences are substantial (8 per cent to 12 per cent). In the case of manufactured goods a very few ACP states have rapidly expanded exports of a few particular products to the EC. The most significant product has been clothing, in particular from Mauritius and Zimbabwe, where the ACP states gain from the Multi-fibre Arrangement restrictions on other suppliers. Other African ACP states have done relatively well in wood products (veneers, hardboard and so on), but on those items tariffs are zero for all LDC (less developed countries) suppliers.

It is often argued that the complex EC "rules of origin" make it impossible for the ACP states to exploit their tariff preferences on manufactures. In fact the same rules of origin have applied to non-ACP exports entering the EC under the Generalised System of Preference, and will apply to the newly-preferred exports of Eastern Europe.

The ACP share in total EC imports has halved from 8.9 per cent in 1970 to 4.5 per cent in 1988. In EC manufactured imports the ACP share has dropped from 6.5 per cent in 1970 to 1.5 per cent in 1987.

Maybe the export performance of the ACP states would have been even worse without tariff preferences. But tariff-free access alone is insufficient to ensure an above average export performance.

To the extent that Eastern European exports to the EC have been constrained by quotas rather than tariffs, they may gain substantially from liberalisation. But this will not be at the expense of the ACP, who do not export big quantities of "sensitive" goods, but at the expense of exports of Latin American and Asian LDCs.

Michael Davenport,
Overseas Development Institute

Computer hacking

From Mr Peter Sommer.

Sir, The most-needed form of protection of computers against misuse is management commitment, not yet more ingenious technological devices (Leader, December 4).

Most of us who regularly carry out computer security surveys and audits know in advance that one of the conclusions we will almost certainly have to make is that our subject has purchased security software or hardware – and is failing to use it properly. Indeed it is not unusual to find that the product, though paid handsomely for, has not even been installed.

One of the saddest consequences of the current hysteria over "hacking" and "viruses" (both of which are much rarer than is commonly thought), and the insistent demand for legislation by such organisations as the Confederation of British Industry, has been to switch attention away from the critical issue of management education.

Your leading article could also have looked carefully at the resources actually available to enforce "computer crime" – a specialist squad of just four lower-rank officers each of whom will be in the job for only three years. Government shifting of responsibility for the topic away from the Home Office, then to the Department of Trade and Industry and now to a potential private member's bill does not encourage one's hope that the enforcement issue will ever be brought to public debate.

Peter Sommer,
Virtual City Associates,
67 Mount View Road, N4

'Junior' accountants

From Mr David Gurney.

Sir, David Waller's perceptive review of the chartered bodies of accountants (December 1) gave a comprehensive survey of their dilemmas. But in one respect it touched merely the tip of the iceberg.

There are six chartered bodies for accountants in the UK but there are a further half dozen or so non-chartered bodies, each concentrating on a segment of the profession not totally covered by any of the others. Rationalisation is sorely needed among junior bodies as it is among the larger organisations.

The Institute of Financial Accountants was involved two years ago in negotiations with a view to rationalising the junior level of the profession. Unfortunately the negotiations petered out, but the need for a streamlined representation of accountants at either level becomes increasingly more urgent as accountants are pushed willy-nilly into the centre of the stage by the pressures of financial legislation in the UK and the torrent of directives from Brussels.

It should be possible for the junior bodies to follow the current trend for mergers. If they did so they would be able to offer more effective continuing professional education for their members and would be in a strong position to qualify accountants as trained compliance officers, with the arrival of the Single European Market in 1992.

David Gurney,
The Institute of Financial Accountants,
44 London Road,
Sevenoaks, Kent

Some real environment costs

From Mr Peter Beales.

Sir, Mr Christopher Patten, Environment Secretary, resplendent in his green finery, argues that the price of energy must reflect its "full costs – including the environmental costs associated with its provision" (November 21). The UK Government's transport infrastructure plans will provide a test of whether these concerns are merely skin deep.

Road and airport developments, together with the "Chunnel Link," provide a classic example of externalities: the community benefits, but under current arrangements the individuals living nearby suffer serious disturbance and reductions in property values without proper compensation being paid.

If the Government wish their environmental credentials to be taken seriously, they will ensure that appropriate compensation is made to those adversely affected by such schemes. Such a policy would also ensure that the true costs to the community of transport developments are taken into account when particular proposals are decided upon.

In the case of the Chunnel Link, where a private Act of Parliament is needed to implement British Rail's plans, we shall all be able to assess not only the position of ministers but also the position of MPs on this important issue of principle. Bearing in mind that Parliament was assured that a link would not be necessary when the Tunnel Act was passed, I hope that MPs will be robust on this point.

Peter Beales,
111 Turney Road, SW21

Book trade sales figures

From Mr T.A. Maher.

Sir, The Publishers Association (PA) figures for book price rises over the 1980s, as cited by Observer (December 1), sadly owe more to wishful thinking than rigorous statistical analysis. Rather disingenuously, the PA has chosen to process the data from its Statistics Collection Scheme (PASCS) in a manner which yields agreeable results, rather than on a basis which is truly comparable with the Retail Price Index.

Two indices may only be compared meaningfully if they have been calculated on the same basis. Yet the PA has chosen to calculate its index on 1985 weights, and then to compare it with the RPI. However, the RPI is a chained Laspeyres index, where the weights are changed in line with actual shifts in consumption over each two-year period. When the raw PASCS data is processed to calculate a chained Laspeyres index, we get a very different picture.

For example, from raw data available from 1981 to 1986, Pentos calculates that on the correct basis, book prices have risen almost a quarter as fast again as inflation (37 per cent for books against 31 per cent for inflation). The PA index shows a rise exactly in line with inflation.

It would be speculation to suggest reasons why the PA choose to calculate price changes in such a manner. However, your readers will note that the PA is among the staunchest supporters of the Net Book Agreement.

T.A. Maher,
Chairman, Pentos,
1 New Bond Street, W1

Staying-on in Scottish education

From Mr Richard Pearson.

Sir, Your analysis of education and training (November 29) rightly highlights the lamentably low performance of the UK in encouraging its 16-18 year olds to continue in full time education.

You look – as do many others – to Japan and mainland Europe for comparisons to help in the diagnosis of our problem. However, many lessons are closer to hand if we look north. Research at this institute has highlighted how the staying-on rates in Scotland are more than 10 per cent higher than in England. This performance has been attributed to a number of factors.

Importantly, the education systems are different, and in Scotland there is an easier transition at 16 to study for Scottish "higher" exams, where the commitment is to a broadly based one-year period rather than the English highly specialised two-year programme for 'A' levels. Another important factor is that the Scottish have a culture which seems to value education more highly than in England.

Improvements are necessary if our young people and the UK can compete effectively in world markets in the future. A first pre-requisite is to raise the aspirations of our children – and society at large – regarding educational attainment. We need to value education as an end itself. We also need to learn from and build on the comparative success of one part of the UK, namely Scotland.

Richard Pearson,
Institute of Manpower Studies,
University of Sussex

India votes for change

From Mr Chhotu Karadia.

Sir, Your leader, "India Votes for Change" (November 27), fails to define democracy as it ought to be practised in a modern society. Democracy is not simply about holding elections and casting of votes. The true concept of democracy is to arrive at a change peacefully through a dialogue.

That is why there are two red lines in the House of Commons, the UK "mother of parliaments" – to separate the rival parties. (The distance between the two lines is that of a sword – or the Mace, symbol of the Speaker's authority in the House of Commons.)

More than 100 lives have been lost during the polls in India, not to mention several hundred more during the campaign leading to the election. A life lost during an election is one too many.

The leaders, whether it is the Congress of Mr Rajiv Gandhi or Mr V.P. Singh's Janata Dal, have failed to live up to the legacy of the founding fathers of Indian democracy. The basic components of any democracy are secularism, non-violence, the rule of law and social justice.

A true democratic state is one where the minority feels safe, where religious tolerance is a norm and where those vested with power behave honestly. Whichever party forms the next Indian Government should strive towards restoring these four basic qualities before India can again call itself the largest democracy in the world.

Chhotu Karadia,
18 Saxon Avenue,
Feltham, Middlesex

Efforts in Chile to 'reconstruct a free country'

From Ms Elizabeth Cleary-Rodriguez.

Sir, Barbara Durr's article on the forthcoming elections in Chile outlined some of the electoral hurdles which will face Mr Patricio Aylwin's 17-party coalition on December 14.

It should be added that these are not the only obstacles set by General Pinochet's outgoing military administration which will hinder Mr Aylwin's "great crusade to reconstruct a free country."

To achieve this goal he will be forced to abide by rules laid down by the current administration. The administration seeks to protect the military and prolong the influence of General Pinochet.

The changes to the Chilean constitution, approved in the July plebiscite, omitted those reforms demanded by the opposition which lessen the influence of General Pinochet in the future decision-making process.

These changes include provisions for:

- the permanence of the current commanders-in-chief of the armed forces;
- the protection of the prestige of the police and military;
- respect for the opinions of the national security council, to be formed by the four chiefs of the armed forces and four civilians;
- non-interference by the civilian authorities in military affairs, such as the promotion of generals and the powers of the military courts.

All these stipulations ensure that a future Aylwin government will be confronted by a series of obstacles in its attempts to bring about any proposed reforms which affect the armed forces.

These measures have been consistently used by the Pinochet administration to stifle criticism of the Chilean Government, and they have led to the fining and imprisonment of journalists and other critics.

By retaining the power of the military courts to try civilians, the military can ensure that the silencing of their critics continues.

Furthermore, any attempts by the civilian Government in Chile to change this state of affairs are bound to generate conflict with the armed forces.

As General Pinochet said in October 1989: "The day they touch one of my men the rule of law is finished."

In the light of such remarks, the Chilean people have no guarantee that the military will respect a new democratically elected government.

Elizabeth Cleary-Rodriguez,
Research Co-ordinator, Latin America,
Article 19,
International Centre on Censorship,
90 Borough High Street, SE1

Other letters to the Editor appear on page 23 of the first section.

COMMODITIES AND AGRICULTURE

EC to encourage non-food uses for cereal crops

By Tim Dickson in Brussels

FARMERS in the European Community will be offered subsidies to grow wheat and other cereals for non-food uses if a plan unveiled in Brussels yesterday is adopted by member states.

The controversial idea – one of several proposals in a report on the use of agricultural commodities in the non-food sector – is designed to encourage producers to find new market outlets for their crops when the reforms of the Common Agricultural Policy are squeezing farm incomes.

The subject of intense discussion in the European Commission since the EC summit of February 1988, yesterday's paper will be scrutinised by farm organisations across the EC and by agri-industrial groups such as Ferruzzi, which has been pressing Brussels for years to divert surplus EC cereals into bioethanol production.

They are likely to be disappointed that Mr Raymond MacSharry, EC Farm Commissioner, has adopted a relatively cautious approach and has stressed the EC's commitment to non-food uses, notably in research and development and in the subsidies already available in the starch regime.

The proposals include the formation of a special EC committee to ensure greater co-ordination of initiatives and the development of a multi-annual programme of agro-industrial demonstration projects.

Most eye-catching is the plan to subsidise cereals production where the farmer finds – "by means of a delivery contract with the relevant industry" – a non-food outlet. No specific mention is made of bioethanol but this is one of several possibilities – others include biodegradable plastics and various types of paper – which the Commission has in mind.

The plan is that participation would be linked to the existing but so far slow-moving set-aside scheme, under which EC cereals farmers are encouraged to take land out of production in return for annual compensation payments.

In return for receiving the subsidy a farmer would have to put at least 30 per cent of his holding into the set-aside scheme but would be able to plant 50 per cent of the land set aside with cereals destined for non-food use.

He would receive the full set-aside premium for the area left fallow – currently between Ecu100 and Ecu700 per hectare depending on the region – and 70 per cent of the set-aside premium for the area used for "non-food" crops.

This would be the subsidy which the Commission says would be "such that the costs for the industry of the raw materials will be comparable to world market prices."

Mr MacSharry's office emphasised last night that the scheme would be limited to cereals and that the cereals in question would be counted in the maximum guaranteed quantity used as the trigger for price cuts under the cereals "stabiliser."

US to renew subsidised grain sales to China

By Nancy Dunne in Washington

THE US is to renew subsidised grain sales to China, putting aside political considerations in the wake of the massacre in Tiananmen Square.

After a recent meeting with Chinese officials and hours of internal discussion, US Agriculture Department officials agreed to offer China 1m tonnes of wheat, subsidised under the Export Enhancement Programme (EEP).

Mr John Reddington, a USDA official, said that in accordance with the programme's rules, the department was required to consider the long-term trade relationship between the US and China.

Grain traders are also hoping for new subsidy offers to the Soviet Union.

The first round of talks began yesterday in Moscow for a new long-term grain agreement (LTA), and traders believe a large, new EEP offer will reassure the Soviet side that the US expects to sell its grain at competitive prices.

No agreement is expected soon on the LTA, in spite of the increasingly warm US-Soviet ties and President Bush's offer during the Malta summit to begin talks immediately on an overall US-Soviet trade and investment agreement.

Soviet negotiators have complained for years of the high tariffs imposed on their products by the failure of the US to grant Moscow Most-Favoured Nation status.

Mr Steve McCoy, president of the North American Export Grain Association, said that until the US waived the Jackson-Vanik Amendment, which denies MFN status, "there is no reason why anyone should act." The current LTA still has a year to run.

Mr McCoy said the EEP sale to China went ahead because the programme was seen as a vital "underpinning" for farmer income.

"We have to be pragmatic about these things. It's the President's policy not to use food as a weapon."

Under rules issued for the EEP last month, subsidies are to be directed to markets where the European Community has been active with its own subsidies. The Community last year sold 1.5m tonnes of wheat to China after selling none the year before.

The US last year sold about 7m tonnes to China, of which 6m were under the EEP. However, the future of subsidised sales there had been in doubt.

China bought all but 10,000 tonnes of wheat still available under its last EEP offer – a proposal made before the Tiananmen Square massacre.

Scandals shake Dutch into action

Laura Raun on the problems facing the Netherlands' food industry

THE MAXIM that "all publicity is good publicity" is not one that commends itself much to the Dutch food industry just now. Recent months have witnessed a series of damaging scandals, starting in the summer with dioxin contamination of milk and culminating in the continuing case of the lead-poisoned dairy feed.

Viewed against a background of heightened public concern about food safety – especially in Britain, following the salmonella and listeria scares – these incidents could hardly have come at a worse time for the world's second biggest food exporter.

The dioxin-contaminated milk came from cows grazing near rubbish incinerators that were emitting chlorinated dioxins – resulting from the burning of plastics. It led to a temporary ban being imposed by Italy on the importation of Dutch dairy products and milk sales from the area around the Rotterdam incinerator have been halted.

Then irradiated prawns from the Netherlands found their way to Britain, where irradiated food is forbidden. Irradiation is intended to destroy harmful micro-organisms such as salmonella and listeria but consumer groups fear too little is known about its long-term effects.

The latest, and most damaging, scandal concerns the lead-poisoning of dairy feed with rice bran contaminated during transport. This has resulted in the deaths of 100 cows and the tainting of milk and other products on 1,700 farms in the Netherlands and the UK.

Mr John Gummer, Minister of Agriculture, at the Royal Smithfield Show earlier this week. He used the phrase "a criminal conspiracy" when the lead-contaminated feed scandal first surfaced last month. Restrictions have been lifted on all but about 30 of the 1,534 British dairy farms prevented from selling milk for the past few weeks because they had received consignments of the contaminated feed. However, some 500 farms are still unable to move or sell beef animals, pending completion of a comprehensive testing system by the agriculture ministry.

Two commercial claims totalling about Fl 9m (£2.86m) have been filed in the scandal and the European Commission is still investigating whether there has been criminal activity in member states.

The Netherlands is second only to the US as an exporter of farm products, with 9 per cent of the world market, according to the Landbouwschap, the powerful farm union. That includes imported foodstuffs which are re-exported after processing.

The country's huge and powerful food sector – comprising ministries, farm associations, agribusinesses, fish companies, lawyers and insurers – prides itself on consistent quality and careful control. It denies that there is a systematic trade in inferior food, although the existence of a few "rotten apples" is not denied.

Consumers view the situation more seriously, however. Mr Louis van Nieuwland, a nutritionist with the Consumers' Union of the Netherlands, says: "The phenomenon of importing cheap or below-norm food, processing and exporting it is called 'Dutching' and is well known. In every country traders try to make money by widening margins." He says there is a relatively well organised "black market" in farm products.

"There is a clandestine trade, indeed criminal," he alleges, with beef from condemned cattle being sold illegally through a "low-priced channel."

No one claims that more than a few companies regularly trade in damaged food in the Netherlands but those companies are threatening permanent damage to the country's reputation.

The companies which deal in grain that has been salvaged for animal feed make up less than 0.05 per cent of a Fl 6bn industry which imports up to 50 per cent of its raw materials from outside the EC, according to Mr Johanne den Hartog, head of the industry board for animal feed.

Nevertheless, the board has been sufficiently shaken by the lead-poisoning case to introduce a package of control measures, including a permit system for traders in damaged feed ingredients. Mr den Hartog believes between five and 10 traders will be granted permits.

Whether the Dutch food sector has been shaken out of its complacency remains to be seen, however. An Agriculture Ministry official, commenting on the lack of figures on the trade in damaged food, said: "We don't have to know how large the trade is. . . we just have to regulate it."

Two traders freed over tainted feedstuff

By Laura Raun in Amsterdam

TWO DUTCH traders charged with knowingly selling tainted animal feedstuff capable of endangering public health have been released from custody after spending three weeks in jail.

Mr Cornelius de Bruijn, owner of De Bruijn animal feedstuffs supplier, and Mr Petrus Timmers, an employee, are likely to be prosecuted in connection with the sale of damaged goods, according to the public prosecutor's office in Breda. An office spokesman said yesterday that a court date still must be set.

De Bruijn sold rice bran contaminated with lead and zinc to Drogerij Marknesse, which processed it into high-protein maize gluten replacer pellets.

In a separate, civil damages suit, De Bruijn has argued that it knew of no lead poisoning but only of zinc contamination when it acquired the rice bran.

The bran was imported to Hamburg from Burma by Toepfer, a West Germany company, and then forwarded to Antwerp before being barged into the Netherlands.

The pellets processed from the bran were sold by Rovegrha, the marketing arm of Drogerij Marknesse, to Slump, a Dutch fodder company, and to merchants and farmers in Britain.

Brazilian judge puts freeze on imports of methanol

By John Barham in Sao Paulo

A FEDERAL judge has ordered a temporary halt to Brazil's imports of methanol while the courts decide whether methanol should be added to the nation's fuel supplies.

Environmentalists say the Government failed to draw up an environmental impact report showing that methanol is not toxic when burnt as a motor fuel.

The Government, which has imported 50m litres of methanol so far, plans to appeal against the court order. If the Government loses, the methanol would be stockpiled for use by the chemicals industry.

Earlier, government officials spoke of importing 1.5bn litres of methanol. The National Petroleum Council, the government agency overseeing the imports, said the health ministry and the Sao Paulo state Environmental Protection Agency had approved the imports.

Mr Jorge Wilheim, the Sao Paulo state environment secretary, said that methanol produced less carbon monoxide than petrol.

The imports are intended to avert a critical fuel shortage caused by a sharp drop in production of fuel alcohol, the alternative fuel distilled from sugar cane.

The National Petroleum Council forecasts a 1.7bn litre shortage of alcohol in 1990, equivalent to 13 per cent of consumption.

Alcohol fuels more than a quarter of Brazil's cars. However, demand for petrol is rising faster than expected, which could force the country to suspend petrol exports and possibly start importing.

Inco to develop nickel mine in north Ontario

By Robert Gibbens in Montreal

INCO, the Canadian nickel producer, is to develop the first big new mine in the Sudbury nickel belt in northern Ontario in more than 20 years. It will cost C$180m (£98.5m).

The McCreedy East mine, starting up in 1993, will have a life of at least 20 years. It is near Inco's Coleman mine, which is being expanded at a cost of C$40m.

McCreedy East is the largest known undeveloped high grade nickel-copper sulphide deposit in the Sudbury basin.

At peak it should produce 40m lb of nickel and 20m lb of copper yearly. With the latest mining methods, its productivity will be twice that of Inco's existing mines.

Inco is also spending C$100m on two nickel projects in Manitoba and is bringing its second gold property into production in north-west Quebec.

The company forecasts production of between 440m lb and 450m lb of nickel in both 1991 and 1992. This compares with production of 430m lb this year.

● Nickel consumption in the non-Communist world is likely to fall by 1 per cent this year to about 660,000 tonnes and by a further 2 per cent in 1990, according to the metals and mining team at W. I. Carr, the London-based financial services group.

The metal's fortunes will track those of stainless steel, which accounts for 61 per cent of nickel consumption.

In contrast, nickel output is predicted to rise by 4.3 per cent to 580,000 tonnes this year and by another 5.2 per cent in 1990 while imports from the eastern bloc are likely to continue at the relatively high level of 80,000 tonnes.

As a result, says Carr, the nickel price is likely to drop to about $3.50 a lb before recovering next year.

Carr expects an average cash price of $4.40 a lb next year with a possible trading range of $2.50-$5.50 a lb.

Caribbean sea island cotton venture formed

By Canute James

THREE Caribbean governments and private interests have created a joint venture to produce high-grade West Indian sea island cotton to take advantage of high prices.

The venture, Caribbean Sea Island Cotton Company, based in Barbados, will initially farm just over 4,000 acres in that island, Antigua and Montserrat, and later expects to farm 100,000 acres in Guyana.

The project is aimed at rejuvenating what was once a promising industry in the region, and to sell the product in North America, Europe and the Far East.

Private investors have a 51 per cent interest in the venture, with Barbados holding 33 per cent, and the remainder shared between Antigua and Montserrat.

Guyana will be involved through a local textile mill which will process the cotton produced by the company.

Legal action widens over Phibro cocoa awards

PARTIES owed compensation by Philipp Brothers (Phibro) in a cocoa trade dispute, have taken legal steps to make the French court decision ordering the awards apply in Britain, French cocoa trade association (AFCC) members said yesterday, Reuter reports from Paris.

The AFCC expelled Phibro, one of the world's leading commodity trading groups, on Tuesday for failing to pay awards of about £3m which two AFCC arbitration panels and a French civil court had ordered to be paid to the International Cocoa Organisation and five commodities trading houses.

Under French law, Phibro's assets in France could be seized once it failed to abide by the court decision, they said.

But AFCC members said they believed London-based Philipp Brothers, a unit of Salomon, the US brokerage house, did not have any assets in France.

Parties owed compensation by Phibro have taken legal steps to have the French enforcement action apply in Britain and, therefore, to Phibro's British assets, AFCC members said.

The members would not say what type of legal steps had been taken.

Phibro would be under greater pressure to pay the awards if the French court decision were accepted by a British court because the company's assets there could be seized if it continued to refuse to pay the awards, the AFCC members said.

David Blackwell writes: Phibro plans to take legal action to set aside its expulsion from the AFCC. Phibro's action will argue that the company is still appealing against the arbitration awards, which total about £3m.

The AFCC rules say that payments must be made notwithstanding any appeal.

The dispute involves the purchase and sale of Ivory Coast cocoa in 1987-88. Phibro continues to deny liability.

WORLD COMMODITIES PRICES

LONDON MARKETS

BASE METAL prices improved across the board on the LME yesterday. Zinc prices continued the week's firmer trend, reflecting short-covering and fund buying interest in the afternoon, [illegible] commitments on December options in the morning. Tin prices moved ahead – traders said the market was still correcting an oversold position after posting a new contract low of $6,570 a tonne last week which took the decline during November to over $800. Some consumer offtake was reported, but buying still appeared to be insufficient to sustain a long-term rise, analysts said. Lead prices ran up sharply towards the close. Traders said recent covering against expected tightness of December and January delivery dates had moved the market to a £20 a tonne premium for cash metal.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Dec	668	662	671 665
Mar	654	654	659 651
May	665	667	670 664
Jul	679	680	684 678
Sep	695	697	699 694
Dec	718	719	723 717
Mar	[illegible]	[illegible]	[illegible]

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 8,600 tonne
Cash	1682-5	1651-3	1657/1655	1655-7		
3 months	1687-9	1661-2	1675/1662	1661-2	1672-4	34,797 Lots
Copper, Grade A (£ per tonne)						Ring turnover 34,200 tonne

US MARKETS

TWO-SIDED TRADING continued in the gold, silver and platinum markets, reports Drexel Burnham Lambert. Prices remained higher due to commission house and local short covering. Copper futures featured very quiet action closing slightly higher. In the softs, sugar rose sharply with strong trade buying seen. March gained 44 closing at 1392. Cocoa and coffee were both slow. Short covering helped cotton prices rebound after posting declines earlier in the week. Expiration of the December contract was uneventful. The livestocks had strong gains in the belly futures. Commission houses were beet buyers. Live hogs and cattle remained slow. The energy complex featured choppy, technical action throughout the day. Trading volume was light.

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jan	20.43	20.34	20.46	20.25
Feb	20.22	20.18	20.27	20.10
Mar	20.05	20.01	20.08	19.95
Apr	19.87	19.84	19.91	19.76
May	19.72	19.69	19.77	19.64

New York

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	579/2	575/0	580/0	572/0
Mar	592/2	588/2	593/0	586/0

LONDON STOCK EXCHANGE

Property sector leads further advance

HEAVY over-subscription for the water privatisation issues and unexpected developments in the property and retail sectors inspired another substantial rise in the UK stock market yesterday. London share prices were moving ahead strongly at the close, despite a sluggish opening on Wall Street.

Traders reported substantial buying interest from UK institutions, with European funds also continuing to take blue chips into their portfolios. The FT-SE Index made a slow start but climbed later in the day to close with a net gain of 26.2 points at 2,353.7, near the peak of the session. Some strategists cautioned that the market could now be moving into "overbought" territory and warned of a potential correction down to the Ft-SE 2,270-2,280 area.

Account Dealing Dates

First Dealings:	Option Declarations:	Last Dealings:	Account Day:
Nov 27	Dec 7	Dec 8	Dec 18
Dec 11	Dec 21	Dec 22	Jan 8
Dec 27	Jan 11	Jan 12	Jan 22

*New time dealings may take place from 9.00 am two business days earlier

Share prices opened a shade easier but soon began to respond to the success of Mrs Thatcher in easily confirming her leadership of the Conservative Party, a factor which has been regarded as potentially more unsettling for foreign than for domestic investors in UK equities.

A more speculative nerve was touched by the news, foreshadowed early in the session and then confirmed, of Kingfisher's £461m bid for Dixons, the UK electrical retailer. The highlight, however, was the excitement generated among property shares by the disclosure of British Land's proposals to inject £339m of portfolio assets into a new listed company. This news put fresh vigour behind the strong advance in property shares since British Land hinted earlier this week at its wide-ranging portfolio plans.

Property shares have lagged behind the market, against which the sector leaders were showing discounts of around 25 per cent. In addition, the property sector has so far failed to share in the latest wave of overseas bids in the UK stock market, which has favoured banks and other financial issues, again very active yesterday.

Shares in Hammerson, the UK property group which survived a bid assault from Rodamco of Holland, moved up sharply as analysts suggested that it could follow the route taken by British Land.

Among international stocks, Reuters continued to advance strongly as US arbitrageurs, short of stock in New York, sought shares in London. Initial uncertainty over the trading figures from Saatchi and Saatchi was outweighed by speculation on prospects of a bid for the London-based advertising group.

Seaq volume yesterday remained relatively brisk at 480.6m shares traded against 428.5m, but traders stressed that inter market business was heavy and that shortage of stock continued to be an important factor, especially among the property shares.

FINANCIAL TIMES STOCK INDICES

	Dec 6	Dec 5	Dec 4	Dec 1	Nov 30	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	82.95	83.02	82.93	82.98	83.08	87.24	88.29 (8/2)	82.93 (4/12)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	92.17	92.40	92.40	92.33	92.38	96.55	98.59 (15/3)	92.17 (6/12)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1859.9	1838.8	1823.0	1833.8	1805.6	1451.0	2008.6 (5/9)	1447.8 (3/1)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	266.7	266.7	264.3	269.2	260.5	177.6	300.0 (27/11)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2353.7	2327.5	2303.4	2311.1	2276.8	1771.7	2426.0 (5/9)	1782.8 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.57	4.63	4.66	4.66	4.73	4.98				
Earning Yld % (full)	11.11	11.24	11.28	11.25	11.44	12.65				
P/E Ratio(Net)(*)	10.89	10.77	10.71	10.72	10.56	9.55				
SEAQ Bargains(5pm)	27,694	27,026	29,385	31,424	25,241	21,657				
Equity Turnover(£m)†	-	894.35	789.74	1011.72	804.35	863.63				
Equity Bargains†	-	28,019	29,820	35,858	23,948	21,601				
Shares Traded (ml)†	-	390.0	368.2	448.0	351.0	402.7				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83. ● Nil 10.82

Ordinary Share Index, Hourly changes Day's High 1861.1 Day's Low 1830.2

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1836.9	1832.0	1834.3	1839.9	1840.9	1848.9	1849.6	1852.0

FT-SE, Hourly changes Day's High 2355.6 Day's Low 2316.4

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2324.9	2316.7	2320.2	2326.6	2327.6	2338.2	2340.4	2345.4

GILT EDGED ACTIVITY

Indices	Dec 5	Dec 4
Gilt Edged Bargains	85.7	81.3
5-Day average	86.3	85.7

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request. London report and latest Share Index Tel. 0898 123001.

Welcome for British Land plan

British Land marked its return from a day's suspension by racing up by 51 before midday as the market reacted enthusiastically to the board's restructuring plan. The stock steadied in the afternoon to close 46 better at 503p on volume of 7.3m shares.

The restructuring involves the creation of a new company, New British Land (NBL), with control over £340m of assets. The rest of the group's assets, or about £1bn, would be sold within five years and the cash passed on to shareholders in the form of dividends and opportunities to buy-in shares. The scheme exploits new rules on tax credits which mitigate the effects of capital gains tax on shareholders.

Analysts welcomed the move, but with reservations. There were worries about the absence of a clear timetable for disposals and one commented that shareholders might question the arrangements for the distribution of NBL stock to management.

One dealer anticipated good business in British Land but thought trade in NBL could be thin. He said that NBL could suffer from the same asset valuation problem from which British Land was now seeking to escape and that its smaller size would make it an easier takeover target.

Dixons activity

Dixons jumped on the morning announcement from Kingfisher that it was considering making a bid for the company. When the offer came, the shares made little further move, although trade continued to be busy. Turnover reached 29m as the price settled at 141p, compared with the 120p offer price and up 22 on the day.

Analysts and marketmakers displayed a broad spectrum of views on what Dixons' shareholders should take. All agreed that the prevailing price suggested that Kingfisher's offer was only a sighting shot. There might be more to come and there was talk of an Anglo-European consortium making a rival bid. Such thoughts left Kingfisher 17 lower at 290p.

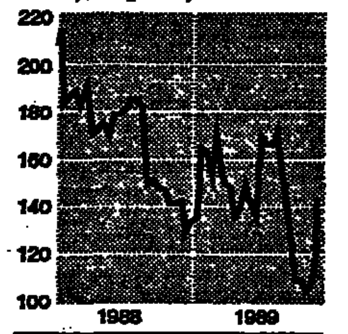
But Mr Paul Deacon, an analyst with Goldman Sachs, echoed the caution of most marketmakers saying that given the odds on a referral to the Monopolies and Mergers Commission – the combined group would have about a quarter of the UK electrical retailing market – he "would be inclined to take some profits."

Mr John Chataway, analyst with Kitcat & Aitken said, on the other hand, that the offer was "far, far too low to have any chance of succeeding." He said that Dixons was the largest electrical retailer in the world.

Mr Rodney Forrest at Smith

Dixons

Share price (pence)



New Court also felt that investors should hang on: "Kingfisher must feel that there is a good chance they can get it through the Office of Fair Trading [which considers bids for referral to the MMC]."

Saatchi news

Full-year figures at Saatchi and Saatchi confirmed the company's woes. The shares slipped further on news of an 80 per cent fall in profits, adding to recent weakness. But this flushed out bargain hunters which in turn rekindled talk of a possible bid. The shares recovered quickly from their low of 259p to close a net 15 better on the day at 283p.

Dealers spoke of bears closing their positions, that is speculators buying the shares back at a lower level having sold short in anticipation of a fall. Ms Lorna Tilbian at Warburg Securities, the company's broker, cut her forecast for the current year from £75m to £66m, while Mr Andrew Mills at BZW stayed on £65m but edged his earnings per share forecast lower to take an increased tax charge into account.

The leaders in the property sector enjoyed a highly active day following the news of the restructuring of British Land. Volume in MEPC was an healthy 5m as it fell back 3 to 545p. Land Securities, which traded 3m shares, slipped 6 to 542p.

There was some profit-taking following rises in both issues on Tuesday and yesterday morning, but there was also a fear that MEPC and Land Securities were too large to exploit the tax concession British Land had latched onto. Land Securities' portfolio is worth £5.2bn and MEPC's £3.6bn and neither, the argument goes, could sell a sizable proportion without flooding the British property market.

Hammerson, however was not held back by the size of its portfolio. Hammerson "A" closed 40 ahead at 850p. Much of what it owns is abroad which would allow it to spread any sales through several markets furthermore Standard Life, which owns 30 per cent of Hammerson, may press for the company to emulate British Land. There was also a whisper in the market that Rodamco, the Dutch group, which opened its failed assault on Hammerson a year ago might be preparing to reopen the bid.

Magazine publisher Builder Group said it was in talks that might lead to an offer for the company, and the shares jumped 22 to 302p. Dealers first thoughts were of Emap, which has an 11.05% stake, but analysts soon added International Thomson, the acquisitive Canadian-owned publishing giant, and Reed International to their list of possible suitors. Reed was in good form, rising 12 to 430p on good turnover of 5.2m shares. Dealers said that a recent strong seller was no longer operating and the price was catching up with the market's firmness over the last week. Reuters reached a second and consecutive closing high, 18 up at 1019p, again on strong US buying.

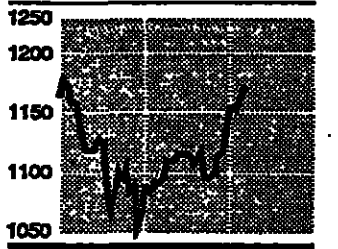
A resurgence of European takeover speculation swept financial sectors. Clearing banks were unsettled by recent profits downgradings but managed a gradual improvement during the day. NatWest were finally 7 higher at 347p on 2.2m while Lloyds, despite what dealers said was a sizeable selling order, managed a 5 gain at 433p on 2.4m.

TSB, heavily bought on Tuesday as talk of European stakebuilding, edged up 2½ more to 129½p on 4.4m. Royal Bank of Scotland were also stimulated by persistent talk of stakebuilding and bid speculation, closing 6 firmer at 198p. Profits upgrading by a leading agency broker triggered keen buying of First National Finance, 15 higher at 219p, Provident Financial, 7 up at 355p and Cattles Holdings, which put on 3 to 58p. Baltic Leasing rose 3 to 130p.

Insurances moved sharply higher as Continental takeover speculation reappeared. The lifes were among the best performers, Legal & General adding 8 at 417p and Prudential 6½ to 223½p. Composites, after a Scottish seminar hosted by one of the big London brokers, responded to whispers that European stakebuilders were back in the market. Guardian Royal Exchange (GRE) advanced 10 to 254p on 2.5m shares – Italy's Generali is said to have built a stake in GRE of between 2 and 2.5 per cent. A couple of large trades in Royal Insurance, of 1.6m shares each, saw the shares peaking at 512p before closing at 507p, up 4 on balance.

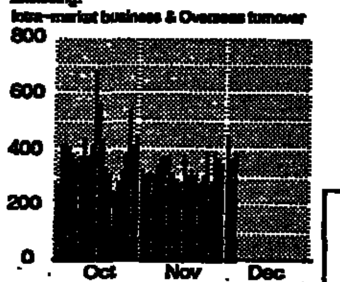
Tiphook reported sharply higher profits and rose 8 to 442p. However, some in the market expressed caution about the company which is still mired in legal action over its bid for Sea Containers and the share is still substantially below its value, 512p, when the offer was launched.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



The excitement over the bid for Dixons spilt into other retailers. Etam was one of the best performers as speculative buying led to a persistent shortage of stock and the shares climbed 11 to 177p. Great Universal Stores were firm ahead of interims today and GUS "A" shares closed 28 better at 1118p.

United Biscuits retreated from the day's high as analysts at Hoare Govett cut profit forecasts from £224m to £216m for 1990. They cited continued slackness in the biscuit market after the hot summer, and concern over tougher competition on frozen foods. The shares ended 4 better on the day at 364p.

Thames Television slipped 13 to 498p on news that it was buying a US production company, Reeves, for about £57m.

The oil and gas sector attracted plenty of support and some good rises across the board. The cold weather was said to have boosted British Gas a further 4¼ to 225p on turnover of 6.6m. BP moved up 2¼ to 225p on 7.1m and Shell, where analysts are still visiting the Far Eastern interests, added 5¼ at 472½p on good turnover of 6.5m.

Dealers spoke of renewed speculative demand for Century Oil which moved up 3 to 153p on talk of possible stakebuilding.

The squeeze in the building sectors became even more acute yesterday and the leaders responded with further strong gains across the board. The "German factor" boosted Redland 6 more to 564p, Blue Circle 8 to 238p and RMC 17 to 681p. Other good performers included AMEC 12 higher at 430p and Wimpey which moved up 6 to 283p.

A report that the Mannesmann consortium, in which Cable & Wireless has a substantial stake, has won the second West German cellular licence, boosted C&W shares 4 more to 526p on turnover of 3.3m shares. British Telecom attracted renewed American demand and put on 4½ to 278½p on keen turnover of 7.4m. Racal Telecom, regarded as one of the favourites to win the West German licence, slipped 5 to 392p with Racal Electronics finally 3 off at 244p.

Ferranti added a penny at 42p, after 44½p, amid talk that GEC may still be interested in bidding for the group. On Tuesday it was announced that nominee company Delaporte had increased its stake in Ferranti to 1.95 per cent.

Crystalate jumped 12 to 64p after the preliminary figures came out better than the market had expected.

Norcros, the building materials to print and packaging group, advanced despite a severe downturn in interim profits revealed yesterday. The shares rose on confirmation that the final year dividend would remain unchanged.

The market had expected profits around the £20m mark, but the company reported interim profits of £18.32m, from £29.12m last year, while earnings per share slipped from 14.1p to 8.3p. The shares closed up 15 at 239p.

Trafalgar House were wanted following press speculation about a possible bid from Bouygues, the French construction group. Turnover was brisk with 3.2m shares traded. The shares gained 15 to 362p. Confirmed plans to float its US subsidiary continued to benefit BTR. They hardened 9 to close at 464p.

Christie International fell as bid talk faded. The market had anticipated a bid from either ADT or Asker International, a Japanese art Gallery, each having a stake of around 6 per cent in the company. The shares eased 9 to 295p.

Macarthy gained 13 to close at 231p as bid talk resurfaced. An overseas buyer was reported to have been in the market, though turnover was said to have been thin.

Smith Industries appeared to benefit from some investor caution over the outlook for shares in British Aerospace. A couple of large buyers were said to have been in the market and Smith Industries shares added 4 to 275p. British Aerospace continued to recover from fears of a European Commission investigation into its £38m "sweetener" deal with the British Government at the time of the Rover Group sale. The shares put on 6 to close at 523p.

The number of stocks listed in the Trading Volumes table on this page is increased from today from 128 to 145, reflecting the main alpha stocks but excluding bid situations.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 24

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	1,700	204	+4
ASDA Group	9,500	118	+5
Abbey National	1,700	181	-1
Allied-Lyons	1,400	485	-1
Amstrad	2,300	39½	+½
Argyll Group	2,100	221½	+6½
Ass. Brit. Foods	401	423	+3
BAA	1,000	383	+1
BAT Inds.	2,200	831	+6
BET	736	278	+1
BICC	1,300	479	+8
BOC	1,100	536	+15
BPB Inds.	782	286	+4
BTR	2,000	464	+9
Barclays	1,700	540	+1
Bass	872	1045	+2
Beazer	802	187	+3
Berisford Int.	358	148	+2
Blue Arrow	528	95	-½
Blue Circle	767	238	+8
Boots	1,800	294	+7
Brit. & Comm.	2,800	85	
Brit. Aerospace	494	523	+6
British Airways	4,400	212	
British Gas	8,000	225	+4½
British Land	7,300	503	+46
BP	7,100	315½	+2½
British Steel	8,300	128½	+1
British Telecom	7,400	278½	+4½
Bunzl	3,200	194	
Burmah Oil	434	680	+2
Burton	1,400	204	+3
Cable & Wire.	3,300	526	+4
Cadburys	776	361	+2
Calor Group	583	438	-2
Carlton Comms.	346	870	+20
Coats Viyella	224	143	+1
Comm. Union	418	484	
Cookson	1,200	276	+2
Courtaulds	1,400	381	+10
Dalgety	438	398	+11
Dixons	28,812	141	+22
Eng. China Clays	797	426	+5
Enterprise Oil	423	640	+6
FKI	4,000	83	+2
Ferranti	7,700	42	+1
Fisons	2,300	571	+7
Gen. Accident	750	1204	+13
General Elect.	3,175	218½	-1
Glaxo	2,000	786	+18
Globe Inv.	226	197	+2
Glynwed Int.	1,000	262	+2
Granada	1,100	313	+7
Grand Met.	2,200	562	-3
GUS A	132	1118	+28
GRE	2,500	254	+10
GKN	704	415	+8
Guinness	1,300	545	-1
Hammerson 'A'	377	850	+40
Hanson	9,500	233	+½
Do. Warrants	3,900	55	+1
Harrisons Cros.	595	149	
Hawker Sidd.	1,000	656	+6
Hillsdown	731	276	+4
IMI	752	320	+5
ICI	684	1140	
Inchcape	197	290	+2
Jaguar	32	838	
Kingfisher	5,100	290	-17
Ladbroke	1,600	322	+4½
Land Securities	3,000	542	-6
Laporte	495	474	+3
Legal & General	851	417	+8
Lloyds Abbey	1,000	298	+3
Lloyds Bank	2,400	433	+5
LASMO	1,400	572½	+½
Lonrho	4,000	294	+14
Lucas	497	619	+11
MB Group	951	197	-1
MEPC	5,100	545	-3
Marks & Spencer	3,000	234	+2
Maxwell Comm.	1,800	235	+4
Mecca Leisure	71	182	
Midland Bank	906	355	+1
NatWest Bank	2,200	347	+7
Next	2,100	85	+2
Northern Foods	821	310	+6
Pearl	38	887	
Pearson	637	789	+33
P & O	947	607	+13
Pilkington	2,000	239	+1
Polly Peck Intl.	2,300	427	+6
Prudential	2,100	223½	+6½
RHM	322	420	
RMC	510	681	+17
RTZ	1,200	551	+7
Racal	1,800	244	-3
Racal Telecom	738	392	-5
Rank Org.	240	873	-2
Reckitt & Colman	54	1214	+29
Redland	969	564	+6
Reed Intl	5,200	430	+12
Reuters	868	1019	+18
Rolls Royce	1,400	170	+2
Rothmans	39	668	+3
Ryl Bk Scotland	4,200	198	+6
Royal Insurance	7,300	507	+4
STC	3,000	262	-4
Saatchi	2,100	283	+15
Sainsbury	2,000	275	+6
Scottish & New.	906	358	-2
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (67). BANKS (5) BREWERS (1) BUILDINGS (1) ELECTRICALS (2) ENGINEERING (1) FOODS (4) INDUSTRIALS (5) Flogas, ISS-Int Serv. Sys. B, Parkfield Grp., Reuters, Unilever. INSURANCE (11) MOTORS (1) NEWSPAPERS (2) TRUSTS (22) OILS (5) OVERSEAS TRADERS (2) MINES (1).

NEW LOWS (33). BRITISH FUNDS (3) AMERICANS (3) BREWERS (1) BUILDINGS (3) STORES (2) ELECTRICALS (5) ENGINEERING (3) FOODS (1) INDUSTRIALS (11) Brompton, Eleco, Esselte, Forwell Grp., Grampian, Ibex, PCT, S.E.P. Intl., Scot. Heritable, Silentnight, TSL Range, MOTORS (2) PAPERS (3) PROPERTY (2) SOUTH AFRICANS (1) TEXTILES (1) TOBACCOS (1) TRANSPORT (1) TRUSTS (6) MINES (2) THIRD MARKET (2).

APPOINTMENTS

GEC subsidiary posts

Mr David Fletcher has been appointed a deputy managing director of GEC-Marconi; he was an assistant managing director, and managing director of Marconi Defence Systems where he is succeeded by Mr Derek Dickinson who was assistant managing director.

Mr Wally Paterson has been appointed an assistant managing director of GEC-Marconi; he was managing director of GEC Sensors where he is succeeded by Mr Gwyn Thomas who was general manager of the electro-optical systems group of GEC Sensors.

Dr Martin Read has been appointed managing director of Marconi Command & Control Systems. He was director, communications division, Marconi Defence Systems.

Mr Ron Howard has been appointed chairman of GEC Avionics, taking over from Marshal of the Royal Air Force Sir Michael Beetham, who remains a director. Mr Howard was managing director.

■ Sir Patrick McNair-Wilson, MP, has been appointed chairman of VOUCHER VAULT, Redditch, which operates the Voucher Bank, believed to be the first one-stop shop for incentive popular branded vouchers in the business-to-business sector. Mr Howard Douglas-Redding has been appointed sales manager for sales promotion and PR agencies.

■ T.I.P. EUROPE, Aylesbury, has appointed Mr David Callear as finance director from December 6. He was finance director of D.C. Cook Holdings, and will remain a non-executive director. He succeeds Mr Joseph Los who resigns from the board on December 31 to pursue other business interests. Mr Charles Pettingell has been appointed group finance director at D.C. Cook from January.

■ Mr Peter Todd has been appointed director general of the MARKET RESEARCH SOCIETY. He was chief executive of the Poster Audit Bureau.

■ Mr Hugh Parker has been appointed chairman of CORPORATE RENEWAL ASSOCIATES. He was senior director of McKinsey & Co. Mr Leslie Dighton, who formed CRA, in 1984, continues as manager director.

■ Mr John R. Davy and Mr Robert F. Garner have been appointed joint managing directors of EGGAR FORRESTER.

■ Mr John Bridgwater has been appointed to the board of PIPER CONSTRUCTION MIDLANDS, part of Piper Securities Holdings. He is chief surveyor.

■ EMPLOYERS REINSURANCE CORPORATION has appointed Mr P.M. Edwards as general manager and Mr M.W. Furie as assistant general manager and chief underwriter.

Finance director at MTS

■ MARITIME TRANSPORT SERVICES, the company which completed a mangement buy-out of the major port interests of Highland Participants, has appointed Mr Ian Waddington as finance director from January 1. He is a partner with Ernst & Young, and on secondment to MTS. Appointed as non-executive directors are: deputy chairman Sir Geoffrey Littler, a NatWest Investment Bank director; Mr William Kirkpatrick; Mr Christopher McCann, a director of County NatWest, and County NatWest Ventures; and Mr George Blackhall, a past managing director of the Port of Felixstowe.

■ DATA GENERAL has appointed Mr Peter Ferrigno as director of marketing and strategic planning. He was software and services division director.

■ Mr Michael Hart, deputy chairman of Foreign & Colonial Management, has been appointed chairman of the ASSOCIATION OF INVESTMENT TRUST COMPANIES.

■ Sir Philip Jones, chairman of the Electricity Council, has been appointed a non-executive director of TOTAL OIL MARINE, UK subsidiary of TOTAL Compagnie Française des Pétroles.

VSEL CONSORTIUM has appointed Mr Norman Broadhurst *(above)* as finance director from March next year. He is finance director of United Engineering Steels. Mr Michael Powell has been appointed director of business development from January 1. He was a consultant with Bain & Co.

■ Mr D. Peter L. Davies has been appointed a director of PRINCIPALITY BUILDING SOCIETY. He is executive director, corporate finance, N.M. Rothschild and Sons (Wales).

■ COMTEXT INTERNATIONAL has promoted Mr Malcolm Hart to director of international sales, and Mr Peter McIntyre to marketing manager.

■ Mr Peter D.G. Tompkins has been appointed a partner of LANE CLARK & PEACOCK, actuaries.

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	6	56.29	56.78	60.41	-0.35	4.54
Gilts & Fixed Int	6	106.20	106.20	112.70	+0.40	8.87
High Inc Equity	6	153.60	133.60	142.90	+0.40	4.44
Worldwide Bond	6	208.30	208.30	220.70	-0.70	4.80
Capital Growth						
American Growth	6	208.00	209.90	223.40	-1.60	0.85
Asian-Pacific	6	120.70	123.00	130.90	+0.80	0.99
Assets & Earnings	6	155.40	155.40	166.30	+0.90	2.22
Capital Reserve Acc	0	88.06	88.06	88.15	+0.04	4.54
Capital Reserve Inc	0	78.15	78.15	78.23	+0.03	5.12
Comdty & Energy	6	117.30	119.90	127.60	.....	1.49
Dividend & Growth	6	47.00	47.00	50.00	.....	4.50
1992 Enterprise	6	61.90	63.21	67.25	+0.12	1.90
Euro Capital Acc	6	100.90	101.60	108.10	-0.30	0.69
Euro Capital Inc	6	97.21	97.94	104.20	-0.18	0.72
General	6	177.90	177.90	190.30	+0.90	2.63
International	6	60.79	61.36	65.28	-0.08	0.77
Japan	6	130.50	132.90	141.40	-0.40	0.00
Mastertrust	6	94.46	94.46	101.10	+0.20	1.68
UK Growth Acc	6	177.10	177.10	189.50	.....	1.48
UK Growth Dist	6	116.90	116.90	125.10	.....	2.24
US Emerging Cos	6	55.96	57.46	61.13	+0.13	0.00
Income & Growth	6	302.70	302.70	323.80	-4.40	3.17
Ethical	6	46.68	46.68	49.93	+0.05	2.00

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Amer Inc & Growth	5¼	34.28	34.28	36.60	-0.29	2.98
European	5¼	77.54	77.68	82.92	-0.13	0.00
European Income	5¼	74.94	74.94	79.99	.....	2.16
Exempt	1	774.3	774.3	805.3	+3.20	1.68
Extra Income	5¼	43.00	43.00	45.90	+0.20	4.36
F East Emerg Ecos	5¼	63.55	63.93	68.47	-0.06	0.11
Fixed Int Tst	5	131.6	135.5	144.7	+0.70	1.69
[illegible]						

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GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♣ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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	Init. Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Wardley Unit Tst Mngrs Ltd (0900)H						
3 Harbour Exchange, London, E14 9GJ 01-735 5055						
American ♦	5¼	74.52	74.52	79.70	-0.08	1.4
Intl Growth ♦	5¼	86.86	86.86	92.89	-0.22	1.0
Income ♦	5¼	128.0	128.0	136.8	+0.50	4.7
Japan Growth ♦	5¼	258.9	258.9	276.8	-0.80	0.1
Pacific Perf ♦	5¼	170.7	170.7	182.5	-0.80	0.1
Small Co's ♦	5¼	128.4	128.4	137.3	+0.10	1.4
Technology	5¼	35.86	35.86	38.35	-0.08	0.1
Australia	5¼	66.47	66.47	71.09	-0.52	3.3
UK Trust ♦	5¼	175.0	175.0	187.1	+1.90	2.6
European Growth ♦	5¼	76.96	76.96	82.31	-0.09	0.1
Hong Kong ♦	5¼	34.37	34.37	36.75	-0.34	1.8
Intl Income	5¼	22.41	22.41	23.96	-0.09	7.3
S'pore & Malaysia	5¼	38.48	38.48	41.15	+0.16	0.1
British Warrant ♦	5¼	26.29	26.29	28.11	+0.13	1.8
Japan Smllr Cos ♦	5¼	31.29	31.63	33.83	.....	0.1
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh 031-225 1551						
Australasian Gold	6	16.27	16.27	17.30	-0.20	0.00
Pacific Basin	6	31.30	31.10	33.08	-0.06	0.40
Can Balanced Gwth ♦	6	49.82	49.82	53.00	-0.16	0.64
Exotic Mae ♦	4	0.9922	0.9722	1.0127	.....	7.40
Penny Share	6	28.35	28.35	30.15	+0.01	0.50
Wellington Fund Mngrs' Ltd (1200)F						
2 London Bridge, SE1 01-407 4404						
Wellington Income	5¼	138.3	139.8	149.7	+0.4	5.80
Wellington Growth	5¼	228.9	231.8	248.8	-1.1	1.34
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432						
Wessex UK Gwth	4¼	109.7	113.3	118.0	+0.3	4.24
Whittingdale Unit Tst Mngmt Ltd						
2 Honey Lane, London EC2V 8BT 01-606 3132						
Challenger ♦ F	2½	62.20	62.20	65.90	-0.09	0.00
Short Dtd Gilt ♦ F	1¼	82.16	82.16	83.35	+0.06	8.44
US Govmt Bond ♦ F	1¼	5785	5785	5860	.....	0.00
Willbro Financial Services Ltd (0900)F						
PO Box 514, 6 Broadgate, London EC2 01-588 7511						
Aust Frtrs W'wide	5	202.7	206.2	219.3	+4	2.41
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD 01-405 8331						
Growth & Equity	5	56.35	59.55	63.24	-0.14	7.44
European	5	80.07	80.40	85.52	-0.04	0.10
Far Eastern	5	65.29	72.25	77.39	+0.19	0.63
Growth Inc	5	76.62	80.27	85.29	+0.02	1.61
Growth Acc	5	76.70	80.25	85.36	+0.01	1.61
Income Inc	5	75.49	77.91	82.88	+0.39	5.09
Income Acc	5	75.59	78.01	82.99	+0.39	5.05
Property Share	5	47.27	47.27	50.30	-0.03	1.10
Smaller Co's	5	45.79	49.65	52.61	-0.17	1.84
Nth American	5	65.39	65.39	69.92	-0.18	1.56
International	5	50.54	50.54	54.05	+0.10	1.36
Asset Value	5	164.65	164.65	174.09	+3.19	4.45
Wright Seligman Fund Mngrs Ltd (1700)F						
11 Blomfield St, London EC2M 7AY 01-588 0592						
Intl Growth	5	115.19	115.19	121.25	+0.22	3.87
UK Growth	5	93.47	93.47	98.39	-0.44	3.05
UK Income	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

INSURANCES

[illegible]

	Bid Price	Offer Price	+ or -	Yield Gross
AEtna Life Insurance Co Ltd – Contd.				
Deposit	13.55		+0.01	–
North American	11.94	11.94	+0.02	–
European	11.67	12.29	-0.02	–
Property	11.89	12.52	+0.03	–
Index-Linked	11.74	12.36	+0.01	–
Far Eastern	15.28	16.09	-0.05	–
UK Equity	15.70	16.53	+0.05	–
Fixed Interest	12.01	12.65	+0.05	–
Gilt Edged (99)	9.94	10.43	+0.04	–
1982 Series				
Managed	296.05	311.64	+0.89	–
Pre 1982 Series				
Aetna Life				
3 Way	496.35	496.35	+2.09	–
Equity Pensions	1225.72	1225.73	+2.58	–
Aetna Pensions Ltd				
3-Way Managed	641.65	641.65	-7.82	–
Bonus Approved				
Mixed Managed	219.80	224.29	-0.48	–
Gilt Edged	13.75		+0.05	–
Albany Life Assurance Co Ltd				
3 Darkes Lane, Potters Bar EN6 1AJ 0707 42311				
Life Funds				
Brit Blue Chip Fd Acc(z)	145.1	152.7	+1.8	–
Equity Fd Acc(z)	1065.4	1110.9	+4.7	–
European Fd Acc(z)	279.7	294.4	+2.9	–
Intl Fxd Int Fd Acc(z)	214.3	225.5	+0.4	–
Fixed Int. Acc(z)	346.8	364.2	+1.5	–
Gtd Money Fd Acc(z)	244.0	256.8	+0.1	–
High Income Fd Acc(z)	119.7	126.0	+0.7	–
Intl Man Fd Acc(z)	441.7	464.9	+3.7	–
Japan Fd(z)	324.3	341.3	+2.5	–
UK Smllr Co's Fd Acc(z)	111.6	117.4	-0.4	–
European Metro	124.3	130.8	+1.7	–
Global Metro	110.9	116.7	+0.6	–
Sunrise Metro	127.9	134.6	+1.5	–
UK Metro	110.0	115.7	+0.7	–
Nth American Fd Acc(z)	222.1	233.7	+2.6	–
Pac Basin Fd Acc(z)	167.1	175.8	+1.2	–
Prop Fd Acc(z)	351.0	369.4	-1.8	–
Millennium	98.9	104.1	+0.5	–
Multiple Inv Acc(z)	738.1	776.9	+3.7	–
Pension Funds				
Brit Blue Chip Acc(z)	162.9	171.4	+0.9	–
Eq Pen Fd Acc(z)	2050.6	2158.4	-0.8	–
Euro Fd Acc(z)	381.5	401.5	-0.6	–
Fixed Int. Acc (z)	720.4	758.3	+3.2	–
Gt Money Pn Acc(z)	449.9	473.1	+0.2	–
High Interest	152.7	160.7	+0.1	–
High Income Fd Acc(z)	125.8	132.4	+0.9	–
Intl Man Fd(z)	679.7	715.4	+0.9	–
Jap Pen Fd Acc(z)	465.0	489.4	-2.3	–
UK Smllr Co's Fd Acc(z)	115.5	121.5	-0.4	–
Eurosolar Metro	137.2	144.3	-0.2	–
Global Metro	118.3	124.5	–	–
Sunrise Metro	142.7	150.2	-0.2	–
UK Metro	116.8	122.9	+0.2	–
N Am Pn Fd Acc(z)	282.5	296.3	+1.3	–
Pac Basin Fd Acc(z)	200.6	211.1	-0.3	–
Property(z)	620.3	652.8	-6.0	–

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Continued on next page

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	Bid Price	Offer Price	+ or -	Yield Gross
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	124.0	131.0	—	—
Building Soc. Fd.	177.0	187.0	—	—
Balanced	285.0	300.0	+1.0	—
European	201.0	212.0	+1.0	—
GT Managed	188.0	198.0	—	—
Gartmore Mngd.	129.0	136.0	—	—
German	163.0	172.0	+1.0	—
Gilt	172.0	182.0	—	—
Global	49.0	52.0	—	—
High Inc.	106.0	112.0	—	—
International Equity	202.0	213.0	—	—
Japan	294.0	310.0	—	—
Managed	58.0	62.0	—	—
Property	309.0	326.0	—	—
R. W. Imperial Gold	148.0	156.0	—	—
UK Equity	317.0	334.0	+1.0	—
Pension Funds				
American	153.0	162.0	—	—
Building Soc. Fd.	181.0	191.0	—	—
Balanced	222.0	234.0	—	—
European	198.0	209.0	—	—
German	139.0	147.0	—	—
Gilt	153.0	162.0	—	—
International Equity	144.0	152.0	—	—
Japan	147.0	155.0	—	—
Managed	64.0	68.0	—	—
Property	238.0	251.0	—	—
UK Equity	304.0	320.0	+1.0	—
Professional Life Assurance Co Ltd				
Frobisher Hse, Nelson Gate, Southampton. 0703 232323				
Pensions Managed Fund	95.59	101.04	—	—
Pensions Cash Fund	82.36	86.69	—	—
Prolific Life & Pensions Ltd				
Stramongate, Kendall, Cumbria LA9 4BE 0539 733733				
Managed Fund see Balanced Growth Managed Fund				
Life Funds				
Balanced Grwth Mngd.	615.7	648.8	+1.1	—
Adventurous Mngd.	135.9	143.3	+0.8	—
Secure Mngd.	109.9	115.9	—	—
Cash Fd.	242.3	255.4	—	—
Property Fund	299.6	315.8	—	—
Equity Fund	699.7	737.4	+1.8	—

	Bid Price	Offer Price	+ or -	Yield Gross
Prudential Holborn Pensions Ltd—Contd.				
Index Linked Gilt	204.6	215.4	+0.8	—
Guaranteed	14.00		+0.07	—
International Money	214.0	225.3	+0.3	—
North American	83.3	87.7	-0.6	—
Japanese	171.7	180.8	-0.6	—
European	114.0	120.1	+0.4	—
Special Situations	111.6	117.5	+1.1	—
Communications	103.2	108.7	+0.3	—
Smaller Companies	106.8	112.5	-0.7	—
International Small Cos.	145.6	153.3	—	—
Prudential Pensions Limited				
Holborn Bars, London EC1N 2NH 01-548 3281				
Discretionary Nov 29	£162.73	167.83	—	—
Equity Nov 29	£170.95	177.11	—	—
International Nov 29	£29.86	30.52	—	—
Intl Bond Nov 29	£13.08	13.25	—	—
Fixed Int Nov 29	£74.07	74.89	—	—
Index Linked Nov 29	£62.96	63.75	—	—
Property Nov 29	£114.58	123.50	—	—
Cash Nov 29	£22.2297	22.2297	—	—
Pru-Linked Retirement Plan				
Managed Dec 5	398.0	414.6	+9.4	—
Cash Dec 5	208.9	217.6	+0.5	—
Prudential Pensions Investment Account				
Pens Mngd Dec 6	159.6	171.7	+0.1	—
Pens UK Eq Dec 6	290.2	312.9	-2.1	—
Pens Intl Dec 6	211.1	227.2	+2.6	—
Pens Fixed Dec 6	168.5	177.8	-1.2	—
Pens Index Lk Dec 6	164.0	173.2	+0.4	—
Pens Cash Dec 6	136.3	143.6	+0.4	—
Regency Life Assurance Co Ltd				
Regency Hse, Lanark Sq, London E14 9XS 01-538 8800				
Aggressive Ptflio Fd.	121.5	127.8	+0.4	—
Balanced Ptflio Fd.	317.2	333.87	+0.9	—
Cautious Ptflio Fd.	124.0	130.5	—	—
Elite Fund	108.8	114.5	+0.7	—
European Fund	98.6	103.7	-0.3	—
Far East Fund	117.5	123.5	-0.3	—
Fixed Interest Fund	246.7	259.6	-0.8	—
International Fund	297.2	312.8	-1.1	—
Money Fund	183.0	192.6	—	—
N American Fd.	128.7	135.4	-0.8	—
Property Fund	394.4	415.1	+0.4	—

[illegible]

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

	Bid Price	Offer Price	+ or -	Yield Gross
Ivory & Sime (Luxembourg) SA				
18 Bld Royal, L-2449 Luxembourg 010 352 470031				
Atlas Fund				

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

[illegible]

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FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
134	124	Treas 2pc IL '90(84.6)	134	....	2.09	9.98
99	98	Exch 11pc 1990	97	....	11.08	14.44
101	99	Exch. 12½pc 1990	99	+	12.58	14.56
96	91	Treas. 9pc 1990	96	....	9.11	12.31
97	95	Treas 8¼pc 1987-90	97	....	8.49	14.03
98	95	Treas. 8pc Cv 1990	96	+	8.28	14.08
98	96	Treas. 10pc Cv 1990	96	+	10.35	13.97
93	87	Exch 2½pc 1990	92	....	2.70	10.91
101	98	Treas 11¾pc 1991	98	-	11.97	13.64
93	89	Funding 5¾pc '87-91	92	....	6.22	12.03
90	86	Treas. 3pc 1991	90	....	3.33	10.58
100	95	Treas 10pc Cv '91	95	....	10.45	13.11
101	96	Exch. 11pc 1991	97	-	11.33	12.79
94	91	Treas. 8pc 1991	91	-	8.71	12.71
106	100	Treas 12¾pc 1992	100	-	12.69	12.44
99	95	Treas 10pc 1992	95	-	10.48	12.40
94	90	Treas. 8pc 1992	91	-	8.77	12.38
100	96	Treas 10½pc Cv 1992	96	-	10.89	12.24
85	82	Treas. 3pc 1992	84	....	3.55	10.19
105	99	Exch. 12¼pc '92	99	-	12.26	12.25
109	103	Exch 13½pc 1992	103	-	13.08	12.09
94	90	Treas 8¼pc 1993	90	-	9.13	11.92
100	95	Treas 10pc 1993	95	-	10.50	11.74
108	101	Treas 12½pc 1993	102	-	12.27	11.82
88	84	Funding 6pc 1993	85	-	7.01	10.72
113	106	Treas 13¾pc 1993	106	-	12.91	11.65
94	89	Treas. 8½pc 1994	89	-	9.46	11.63
117	109	Treas 14½pc 1994	109	-	13.19	11.47
113	106	Exch 13½pc 1994	106	-	12.70	11.62
100	94	Treas. 10pc Ln. 1994	95	-	10.53	11.46
110	103	Exch. 12½pc 1994	103	-	12.12	11.60
96	91	Treas 9pc 1994	91	-	9.87	11.37

Five to Fifteen Years

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
108	101	Treas 12pc 1995	101	-	11.79	10.50
79	72	Exch 3pc Gas 90-95	75	....	3.97	8.81
101	95	Exch. 10¼pc 1995	95	-	10.75	11.38
113	106	Treas 12¾pc 1995	106	-	12.00	11.27
119	110	Treas. 14pc '96	110	-	12.63	11.46
97	90	Treas. 9pc 1992-96	90	-	9.93	11.11
126	117	Treas 15¼pc 1996	117	-	12.95	11.28
117	108	Exch 13¼pc 1996	108	-	12.15	11.24
101	94	Conversion 10pc 1996	94	-	10.57	11.12
118	109	Treas 13¼pc 1997	109	-	12.07	11.19
104	96	Exch 10½pc 1997	96	-	10.83	11.10
95	88	Treas 8¾pc 1997	89	-	9.83	10.89
128	118	Exch 15pc 1997	118	-	12.63	11.33
100	93	Exch. 9¾pc 1998	93	-	10.44	10.99
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS—Contd

Over Fifteen Years

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
103	93	Conversion 9½pc 2005	93	-	10.12	10.30
111	101	Exch 10½pc 2005	101	-	10.35	10.29
125	114	Treas. 12½pc 2003-05	114	-	10.93	10.50
90	82	Treas 8pc 2002-06	82	-	9.73	10.23
118	108	Treas 11¾pc 2003-07	108	-	10.83	10.51
96	86	Treas 8½pc 2007	87	-	9.76	10.07
134	122	Treas. 13½pc '04-08	122	-	11.03	10.44
101	91	Treas. 9pc 2008	91	-	9.83	10.00
93	91	Treas. 9pc 2008 B	91	-	9.83	10.00
92	83	Treas 8pc 2009	83	-	9.61	9.95
102	91	Conv 9pc Ln 2011	92	-	9.79	9.91
68	61	Treas. 5½pc 2008-12	61	-	8.92	9.69
89	80	Treas. 7¾pc 2012-15	80	....	9.64	9.87
132	118	Exch. 12pc '13-'17	119	+	10.11	9.94

Undated

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
45	40	Consols 4pc	40	....	9.96	-
40	35	War Loan 3½pc	35	....	9.87	-
70	60	Conv. 3½pc '61 Aft.	61	-	5.71	-
41	31	Treas. 3pc '66 Aft.	31	...	9.42	-
30	25	Consols 2½pc	25	...	9.88	-
29	24	Treas. 2½pc	25	+	10.00	-

Index-Linked

1989 High	Low	Stock (b)	Price £	+ or -	(1)	(2)
112	103	Tr. 2pc '92(97.8)	111	-	2.93	4.07
105	94	Do. 2'94 (102.9)	104	-	2.87	3.46
155	139	Do. 2pc '96(67.9)	154	-	3.01	3.43
130	118	Do 2½pc '01(78.3)	128	-	3.48	3.74
127	115	Do. 2½pc '03(78.8)	125	-	3.57	3.60
131	117	Do. 2pc '06(69.5)	128	-	3.59	3.77
123	110	Do. 2½pc '09(78.8)	120	-	3.60	3.77
128	114	Do 2½pc '11(74.6)	125	-	3.59	3.74
106	95	Do. 2½pc '13(89.2)	103	-	3.56	3.71
115	101	Do. 2½pc '16(81.6)	112	-	3.53	3.67
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.48	3.61
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.56

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1989 ... and for October 1989: 117.5.

INT. BANK AND O'SEAS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.32
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10.93
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.24
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.19
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.21
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.33
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10.97
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12.24
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.90

CORPORATION LOANS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.30
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.65
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.36
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12.20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.40

COMMONWEALTH & AFRICAN LOANS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12.70
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.33

LOANS

Building Societies

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
100	99	Nwide Anglia 12 pc 2.1.90	99	....	12.84	15.44
100	98	Do. 12pc 29.1.90	99	.	12.63	15.33
100	95	Do. 12pc 26.2.90	99	....	12.75	15.30
100	98	Do. 12pc 19.3.90	99	...	12.97	15.36
100	98	Do. 13pc 23.4.90	99	..	13.48	15.32
100	98	Do. 13pc 24.5.90	99	...	13.22	15.26
100	98	Do. 13pc 4/6/90	99	....	13.78	15.20
100	99	Do. 14pc 2.7.90	99	....	14.37	15.18
100	98	Do. 13pc 23.7.90	99	...	13.78	15.09
100	98	Do. 13pc 13.8.90	98	...	13.65	14.97
100	98	Do. 13pc Sds 3.9.90	98	.	13.53	14.94
107	95	Do. 3pc IL Ln 2021	107	-	4.34	4.47
107	99	Do. 4.25pc IL '24	106	+	4.33	4.29

Public Board and Ind.

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
47	43	Met. Wtr. 3pc 'B'	45xd	..	6.67	10.06

FOREIGN BONDS & RAILS

1989 High	Low	Stock	Price £	+ or -	Div % Gross	Red. Yield
50	40	Greek 7pc Ass	50	....	3.50	17.00
53	40	Do 6pc 28 Stb Ass	50xd	.	3	16.00
50	40	Do 4pc Mixed Ass.	50xd	..	2	14.00
60	65	Hung. '24 Ass	80		2.75	13.57
139	125	Hydro Quebec 15pc 2011	125	+	15.00	11.68
128	113	Iceland 14½pc Ln 2016	114	+	14.55	12.59
97	90	Ireland 9¾pc 91-95	90	-	10.77	11.30

AMERICANS

1989 High	Low	Stock	Price £	+ or -	Div Gross	C'vr	Y'ld Gr's
44	26	Abbott Laboratories	45	-	$1.40	-	2.0
579p	361p	Allegheny & W 1c	445p	-10	[illegible]	-	4.3
18	12	Amax $1	14	-	80c	-	3.4
11	[illegible]	Ambase Corp $1	8	-	20c	-	1.5
15	695p	Amdahl 5c	857p	-19	10c	-	0.7
37	25	Amer. Cyanamid $5	34	+	$1.35	-	2.5
25	14	Amer. Express 60c	22	+	84c	-	2.3
28	15	American T. & T. $1	27		$1.20	-	2.7
41	26	Ameritech $1	39	-	$2.92	-	4.7
659p	490p	Asamerica Energy	579p	-4		-	-
22	9	BankAmerica $1.8	17	-	60c	-	2.2
37	19	Bankers N.Y. $1	29	-	$2.12	-	4.5
68	39	Bell Atlantic $1	67	-1	$4.40	-	4.1
35	19	BellSouth Corp	34	-	$2.52	-	4.7
15	9	Bethlehem Steel $8	11	-	40c	-	2.2
12	865p	Bio-Rad Labs. A	10	+	-	-	-
20	15	Bowater Inc	18	+	$1.12	-	3.9
12	8	Brunswick 75c	9	-	44c	-	3.1
46	28	CPC Intnl. 25c	45	-1	$1.60	-	2.5
863p	333p	California Engy	730p	-5	-	-	-
36	17	Campbell Soup 15c	32	-	92c	-	1.8
28	15	Chase Manhattan $12½	23	-	$2.40	-	6.4
26	17	Chem. Banking Corpn.	20	-	$2.72	-	8.4
17	12	Chrysler $6¼	12	-	$1.20	-	6.3
22	14	Citicorp $1	18	-	$1.62	-	5.4
41	25	Colgate-Palmolive $1	39	-	$1.48	-	2.4
17	10	Contl Bank Corp $4	12	-	80c	-	3.9
410p	216p	Corporate Data Scinc	318p	..	-	-	-
27	21	Dana Corp. $1	21	-	$1.60	-	4.6
13	801p	Data General	833p	-53	-	-	-
39	26	Dun & Bradstreet $1	26		$2.00	-	4.7
43	24	Eaton Corpn. 50c	35	-	$2.00	-	3.6
11	6	Echlin Inc	8	-	70c	-	5.1
21	16	FPL Group 1c	21	.	$2.20	-	6.7
23	13	Fluor Corp 62½pc	20	-	16c	-	0.5
35	27	Ford Motor $1	28	-	$3.00	-	6.6
40	24	Gen. Elect. 63c	40	-	$1.87	-	3.0
579p	365p	General Host Corp $1	413p	-18	36c	-	4.6
39	18	Gillette $1	30	-	96c	-	2.0
927p	406p	Gt. American Bank Bk $1	413p	-10	20c	-	3.1
23	16	Greyhound $1½	19	.	$1.32	-	4.3

Continued on next page

Money Market Trust Funds

Allied Trust Bank Ltd
97-101 Cannon St, London, EC4N 5AD 01-629 6802

Bank of Ireland High Interest Cheque Acc
36 Queen St EC4R 1BN 01-635 7000

Bank of Scotland

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS – Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
15¾	847p	Hasbro Inc 50c	13	–½	16c	–	0.8
57½	32¾	Honeywell $1½	52[illegible]	–¼	$2.75	–	3.3
22⅝	15¼	Houston Inds.	22½	.....	$2.96	–	8.3
76¾	60⅞	IBM Corpn $1¼	63[illegible]	–[illegible]	$4.84	–	4.8
60p	45p	Image Storage/R.Syc.Ir	58p	.....	–	–	–
32⅛	18¾	Ingersoll-Rand $2	29[illegible]	–⅞	$1.20	–	2.6
33¼	22½	Lockheed Crpn. $1	25[illegible]	+⅛	$1.80	–	4.5
22⅝	11¼	Lone Star Inds $1	11[illegible]	–⅞	$1.90	–	10.2
27⅞	17½	Louisiana Land 15c	26[illegible]	–⅛	$1.00	–	2.4
20½	11½	Lowe's 50c	19⅝	–½	46c	–	1.6
28[illegible]	15[illegible]	Manuf. Hanover $1	22[illegible]	–⅝	$3.28	–	9.2
22⅝	13[illegible]	Merrill Lynch $1	16⅝	–¼	$1.00	–	3.8
24¾	19⅝	Molex Inc.	22¼	–⅝	3.2c	–	–
30⅛	18⅝	Morgan (JP) $2½	26[illegible]	–⅞	$1.66	–	3.9
28[illegible]	24⅛	Morris (Philip)	27[illegible]	–½	$1.13	–	2.6
54¾	36⅛	NYNEX $1	54	–¾	$4.36	–	5.1
44p	16p	N'wide Legal Serv.	20p	.....	–	–	–
24⅞	18¼	PHH Corp	23⅛	–⅛	$1.16	–	3.2
259p	167p	Pacific Agr.	179p	.....	–	–	–
28½	19	Pacificorp $3¼	27[illegible]	–½	$2.76	–	6.0
30¾	16⅞	Pacific Telesis 10c	30⅛	–⅝	$1.88	–	3.9
22⅞	15¼	Pall Corp. 25c	21¾	.....	48c	–	1.4
55⅞	39[illegible]	Pennzoil 83 1/3c	52[illegible]	–⅝	$3.00	–	3.6
42¼	28⅝	Quaker Oats $5	37½	–2¼	$1.40	–	2.4
32⅞	23½	Rep NY Corpn $5	30[illegible]	+⅛	$1.28	–	2.6
16¾	11[illegible]	Rockwell Intl. $1	13[illegible]	–⅛	78c	–	3.8
29½	22	Sears, Roebuck 75c	23[illegible]	–⅜	$2.00	–	5.3
37½	21⅜	Southwestern Bell $1	36⅞	–½	$2.60	–	4.5
27⅞	17[illegible]	Sun Co. Inc. $1	25[illegible]	–½	$1.80	–	4.5

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

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LONDON SHARE SERVICE

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LEISURE

1989 High	Low	Stock		Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
170	126	Airtours 10p	y	149	–1	†6.25	3.2	5.6	6.7
315	195	Anglia TV	β	270	+2	†7.75	3.3	3.8	10.5
*162	109	Aveco 1p	β	112	–6	[illegible]	8.9	1.3	9.7
34	9	BCE Hldgs 5p	y	18	.....	0.4	–	3.0	–
395	275	Barr & W.A.T. 'A'	y	275	.....	†15.0	1.7	7.3	11.1
540	225	Boosey & Hawkes	y	415	.....	†10.0	2.5	3.2	16.4
60	35	Border T.V.	y	52	.....	2.0	3.4	5.1	7.6
423	317	Brent Walker 10p	β	359	+2	†11.0	3.6	4.1	7.2
117	79	Do 6pc Cv Cm Rd Pf	y	99	+2	6.0	–	8.1	–
*103	80	Buckingham Int'l 10p	y	86	.....	–	–	–	–
344	146	Campari Int. 20p	y	148	+2	8.5	3.9	7.7	3.8
1135	504	Capital Radio 10p	β	915	.....	18.0	◆	2.7	◆
958	662	Carlton Communications	α	878	+20	†7.5	5.2	1.1	23.5
125	95	Do. 6.5p Prf	y	109	+1	6.5	–	8.0	–
465	268	Castle Comms. 5p	y	418	.....	8.5	◆	2.7	◆
823	579	Central TV	β	718	.....	†25.5	2.5	4.7	10.9
248	123	Chrysalis	y	134	.....	[illegible]	0.1	[illegible]	–
146	50½	Cityvision 5p	β	142	–1	[illegible]	10.1	0.5	28.0
39	10	Classic Th'tres	y	13	.....	–	–	–	–
392	258	Compass Group 5p	β	346	+2	†17.2	2.7	2.8	17.8
*99	62½	European Leisure	y	74xd	+1	[illegible]	3.1	2.7	14.5
110	56	Ex Lands 10p	y	59	.....	0.5	–	1.1	–
*117	85	Expeditor Lei. 20p	y	88	.....	–	–	–	29.7
675	437	Fairline Boats 10p	y	500	.....	18.5	◆	–	◆
248	149	First Leisure	β	218	.....	12.93	3.3	1.8	22.1
735	565	GWR Group 20p	y	565	–20	13.0	11.3	0.7	14.7
73	45	Grampian TV A 10p	β	71xd	.....	13.0	2.8	5.6	8.1
31	20	Greenwich Comm	y	25	–1	–	–	–	–
134	85	HTV Ord	β	126	+1	5.0	3.7	5.3	6.5
137	68	Hi-Tec Sports	y	81	–1	4.5	2.6	7.4	6.8
27½	3	Int'l Media Conn. 5p	y	6½	+½	–	–	–	–
255	160	Invicta Sound 10p	y	183	+2	12.7	◆	2.0	◆
68	41½	Knock 10p	β	99	+3	†1.4	2.4	3.2	16.6
138	97	Do 7p Rd. Pf	y	118	+3	7.0	–	7.9	–
237	157	LWT 5p	β	203	+1	15.7	3.4	3.7	10.2
111	27½	Leisure Inv 10p	α	28	.....	[illegible]	1.4	[illegible]	[illegible]
538	343	Marina Devs. 50p	y	398	.....	17.5	1.9	2.5	26.6
200	147	Mecca Leisure 10p	α	162	.....	[illegible]	1.8	3.6	19.9
110	83	Do. 7.25p Cv Rd Pf 20p	y	87	.....	7.25	–	11.1	–
162	101	Medminster 10p	y	140	.....	[illegible]	◆	3.8	◆
247	131	Metro Radio Grp 5p	y	170xd	+5	3.75	◆	2.9	◆
253	141½	Midsummer Leis 10p	β	167	–1	4.2	◆	3.4	◆
24	19	Millwall Hldgs. 1p	y	21	.....	–	–	–	39.6
*145	75	Noble Raredon 5p	y	88	+2	–	–	–	◆
*88	49	Owners Abroad 3p	β	52	.....	†2.35	3.3	6.0	6.1
230	82	Pavilion Leisure 10p	y	92	.....	[illegible]	–	6.6	–
240	183	Pickwick	β	213	.....	13.25	2.9	2.0	22.2
163	126	Prism Leisure 10p	y	132	.....	4.5	1.9	4.5	14.6
204	142	Prop Co of London	y	179	.....	2.75	0.9	2.0	[illegible]

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES – Contd

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND – Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES – Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

1989 High	Low	Stock		Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]									
11	2½	[illegible] 2½p	y	2½		–	–	–	3.3
50	26	Tavern Leis. 20p	y	39	+1	–	–	–	–
115	28	Tomorrow Leisure 20p	y	79	+2	–	–	–	30.1
113	55	UPL Group 10p	y	55		2.75	1.9	6.7	10.4
150	129	Unit Group	y	131	.....	5.0	3.3	5.2	7.3
100	66	Video Magic Leis. 1p	y	84		W2.0	0.7	3.2	67.3
14	4½	Vista Ents 5p	y	4½	.....	–	–	–	–
40	20	Vizcaya Hldgs 5p	y	20	–3	–	–	–	–
46½	23	Wheeler Leisure 20p	y	38½	.....	–	–	–	–
32½	10	Do. Wrrnts.	y	26	..	–	–	–	–
10¼	4½	Wilton Group 1p	y	5	+¼	–	–	–	–

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ◆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ♦ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p y	88	.....	
Craig & Rose £1 y	850	.....	
Finlay Pkg. 5p y	66	.....	
Holt (Jos) 25p y	1340	+2	
Arnotts	400	.....	
Carrol (P.J.) y	148	.....	
Hall (R. & H.)	195	.....	
Heiton Hldgs. y	92	+2	
IRG	220	–2	
United Drug	140	.....	

IRISH

Cap 8½% Ln. 1991	£96⅞	.....
9pc Cap Ln. 1996	£96¾	–½
Fin. 13% 97/02	£115	–1

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	43
Amstrad	6½
Astec (BSR)	5¼
BAT	67
BOC Grp.	44
BTR	37
Barclays	48
Blue Circle	20
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons.	42
Comm Union	40
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	60
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd.	55
ICI	90
Jaguar	85
Ladbroke	25
Legal & Gen.	31
Lex Service	26
Lloyds Bank	31
Lucas Inds.	54
Marks & Spencer	16
Midland Bk.	26
Morgan Grenfell	38
Nat West Bk.	23
P & O Dfd	51
Polly Peck	30
Racal Elect.	20
RHM	39
Rank Org Ord.	72
Reed Intnl	34
STC	25
Sears	9
SmKl. Beecham A	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Brit Land	27
Control Secs.	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Brit Petroleum	25
Burmah Oil	65
Charterhall	2½
Conroy Petlm.	9
Premier	10½
Shell	37
Tuskar Res.	12
Ultramar	20½

Mines

Lonrho	25
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar eases as D-mark firms

The US dollar weakened yesterday in response to renewed strength by the D-Mark, though trading was quiet as dealers waited for the Federal Reserve's Tan Book, a compilation of economic surveys from the regional Federal Reserve banks, which was released after the London markets had closed.

The dollar opened steadily in London. Institutions sold dollars for D-Marks, but this was offset as some dealers squared their positions. During the afternoon, the dollar began to fall after the US Treasury Under Secretary, Mr David Mulford, said that the dollar's 10 per cent decline against the D-Mark since the Group of Seven's last meeting in September was not an alarming adjustment.

The dollar closed in London at DM1.7650, compared with DM1.7760 on Tuesday. It also finished at Y143.80 from Y143.70; SFr1.5870 from SFr1.5985; and FFr6.0300 from FFr6.0650. The Bank of England's dollar index fell to 68.6 from 68.9.

Dealers were anticipating tomorrow's release of the US November employment report. Non-farm payroll employment is expected to have increased by 155,000, compared with the 233,000 rise in October.

If the report confirms that the US economy is continuing to weaken, then analysts said the dollar could come under further pressure as an easing in monetary policy is anticipated.

The dollar was also depressed yesterday by the renewed strength in the D-Mark. It had paused for breath at the beginning of the week; however, the continuing political upheaval in Eastern Europe prompted investors to buy D-Marks, particularly against the Yen. The D-Mark rose to Y81.55, up 55 points on the day.

The Swiss Franc softened against the D-Mark on disappointment that Swiss monetary policy had not been tightened. Analysts said that behind the Swiss Franc's decline lay worries about fundamental factors. Switzerland's inflation remains higher than West Germany's while its money market rates are lower. Mr David Cocker, chief economic advisor at Chemical Bank, said the D-Mark was threatening to break above SFr0.9000, a level it was last at in March 1981. The D-Mark closed at SFr0.8980, compared with SFr0.8950.

Sterling was broadly steady on market relief after the victory of Mrs Margaret Thatcher in the Conservative Party leadership election contest. Some early buying on the back of the result supported sterling, though for most of the day the pound was on the sidelines, moving higher against the weaker dollar and easing against the stronger D-Mark.

It closed at DM2.7825 from DM2.7900 on Tuesday. It finished at $1.5760 from $1.5705; SFr2.5000 from SFr2.4965; FFr9.5025 from FFr9.5275; and Y226.50 from Y225.70. Sterling's effective exchange rate index closed 0.1 lower at 86.3.

£ IN NEW YORK

Dec.6	Latest	Previous Close
£ Spot	1.5660-1.5670	1.5700-1.5710
1 month	0.84-0.83pm	0.87-0.86pm
3 months	2.39-2.36pm	2.51-2.48pm
12 months	8.38-8.28pm	9.00-8.90pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.6	Previous
8.30 am	86.3	86.4
9.00 am	86.3	86.3
10.00 am	86.4	86.3
11.00 am	86.5	86.2
Noon	85.5	86.2
1.00 pm	86.5	86.2
2.00 pm	86.6	86.3
3.00 pm	86.4	86.3
4.00 pm	86.3	86.4

CURRENCY RATES

Dec.6	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	1.21613	1.37439
U.S Dollar	7	1.28670	1.14596
Canadian $	12.46	1.49605	1.33218
Austrian Sch.	6½	16.1751	14.3337
Belgian Franc	10¼	48.2513	42.7701
Danish Krone	10½	8.91426	7.90197
Deutsche Mark	6.00	2.29715	2.03637
Neth.Guilder	7.00	2.59013	2.29719
French Franc	10¼	7.84372	6.95312
Italian Lira	13½	1692.11	1499.49
Japanese Yen	3¾	185.027	164.675
Norway Krone	8	8.78044	7.78451
Spanish Peseta	-	148.207	131.407
Swedish Krona	9½	8.21751	7.28946
Swiss Franc	6.00	2.06644	1.82552
Greek Drach.	20½	210.305	186.551
Irish Punt	-	0.87087	0.772055

Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Dec.5

CURRENCY MOVEMENTS

Dec.6	Bank of England Index	Morgan** Guaranty Changes %
[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Dec.6	£	$
[illegible]	[illegible]	[illegible]

EURO-CURRENCY INTEREST RATES

Dec 6	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	14⅞-14⅝	15⅛-14⅞	15⅛-15⅛	15⅜-15⅛	15¼-15	14¾-14½
US Dollar	8½-8⅓	8½-8⅜	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	8⅛-8
Can. Dollar	12¼-12⅛	12⅝-12⅛	12⅛-11⅞	12⅛-11⅞	12-11⅞	11⅞-11⅞
D. Guilder	8⅛-8⅛	8⅜-8⅛	8⅜-8⅛	8⅞-8⅛	8⅜-8⅛	8⅛-8⅛
Sw. Franc	8⅛-8	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	8-7⅞
Deutschmark	7⅞-7⅞	7⅞-7⅞	8⅛-8	8⅜-8⅛	8⅜-8⅛	8⅛-8⅛
Fr. Franc	9⅞-9⅞	10⅛-9⅞	10⅛-10⅛	10⅜-10⅛	10⅝-10½	10⅜-10⅛
Italian Lira	12-10	13-12	13-12⅛	13-12½	13-12⅛	13-12⅝
B. Fr. (Fin)	9⅝-9⅜	9⅝-9⅜	9⅞-9⅞	10-9⅞	10-9⅞	10-9⅞
B. Fr. (Con)	9⅞-9½	9⅞-9½	10⅛-9⅞	10⅛-9⅞	10⅛-9⅞	10⅛-9⅞
Yen	6⅛-6⅛	6⅛-6⅛	6⅞-6⅞	6⅞-6⅞	6⅞-6⅞	6⅞-6⅞
D. Krone	12⅛-11⅞	12⅜-12⅛	12-11⅞	11⅞-11⅝	11⅝-11⅜	11⅝-11⅛
Asian $Sing	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	8⅛-8

Long term Eurodollars: two years 8⅞-8⅞ per cent; three years 8½-8¼ per cent; four years 8⅞-8⅞ per cent; five years 8⅝-8⅜ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT- FORWARD AGAINST THE POUND

Dec.6	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5680 - 1.5790	1.5755 - 1.5765	0.85-0.83cpm	6.40	2.51-2.48pm	6.33
Canada	1.8260 - 1.8360	1.8300 - 1.8310	[illegible]	2.69	1.31-1.17pm	2.71
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Belgian rate is for convertible francs. Financial franc 58.45-58.55.

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec.6	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.6	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	42.7701	+0.73	[illegible]	[illegible]
Danish Krone	7.85212	7.90197	+0.63	[illegible]	[illegible]
German D-Mark	2.05853	2.03637	-1.08	[illegible]	[illegible]
French Franc	6.90403	6.95312	+0.71	[illegible]	[illegible]
Dutch Guilder	2.31943	2.29719	-0.96	[illegible]	[illegible]
Irish Punt	0.768411	0.772055	+0.47	[illegible]	[illegible]
Italian Lira	1483.58	1499.49	+1.07	[illegible]	[illegible]
Spanish Peseta	133.804	131.407	-1.79	[illegible]	[illegible]

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Dec.6	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE / CHICAGO / LONDON (LIFFE) futures and options		
[illegible]	[illegible]	[illegible]

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Dec	2366.0	2368.0	2327.0	2343.0
Mar	2412.0	2411.0	2375.0	2388.0
Jun	2450.0	2430.0	2430.0	2426.0

Estimated volume 5289 (3581)
Previous day's open int. 33483 (32167)

EUROPEAN OPTIONS EXCHANGE

Series	Vol	Last	Stock
[illegible]	[illegible]	[illegible]	[illegible]

TOTAL VOLUME IN CONTRACTS : 35,483
A=Ask B=Bid C=Call P=Put

MONEY MARKETS

Rates steady

UK money market rates were unchanged yesterday, *reflecting sterling's stability* after Prime Minister Mrs Margaret Thatcher's victory in the Conservative Party leadership election.

The key three-month interbank rate was quoted at 15⅛-15¼ per cent, unchanged from Tuesday. In the futures market, trading was quiet. The short sterling contracts gave little direction and prices were stuck in a narrow range.

The Bank of England initially forecast a shortage of around £1.75bn and an early round of bill offers was invited, at which £812m bills were purchased. This included £458m band 2 bank bills which were bought outright at 14¾ per cent, while £355m were purchased for resale to the market on December 27 at 14⅞-14⅞ per cent.

The Bank's forecast shortage was revised to around £1.7bn, before taking account of the early round. Later in the morning, a further £504m bills were purchased.

These included £29m bank bills in band 1 at 14¾ per cent; £130m band 2 bank bills at 14⅞ per cent; and £345m for resale to the market on December 27 at 14⅞ per cent. During the *afternoon, the bank bought* £161m of band 2 bank bills at 14⅞ per cent. Finally, it provided late assistance of around £110m at undisclosed rates. Factors contributing to the £1.75bn forecast shortage included, a take-up of Treasury bills and maturing assistance, which were expected to drain £853m, Exchequer transactions £750m, a rise in the note circulation £195m, and bankers' balances £180m below target.

In Frankfurt, the Bundesbank accepted bids for DM19.8bn at this week's 35-day securities repurchase pact at a fixed rate of 7.30 per cent. The allocation replaced an earlier pact of DM21.2bn which expired yesterday, causing a net DM1.4bn to be drained from the market.

Call money eased slightly to 7.65-7.70 per cent, from 7.70-7.75 per cent on Tuesday. Analysts said the easing reflected a market perception that the pressures on the Bundesbank to tighten monetary policy before the end of the year had weakened slightly.

In New York, the Federal Reserve did not conduct open market operations, which was as the market expected. Federal Funds were trading at 8⅝ per cent at the usual time for the Fed's market operations, compared with 8¾ per cent on Tuesday.

UK clearing bank base lending rate 15 per cent from October 5

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.6)	3 months US dollars		6 months US Dollars	
	bid	offer	bid	offer
	[illegible]	[illegible]	[illegible]	[illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK	Treasury Bills and Bonds
[illegible]	[illegible]

Dec.6	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Dec 6	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BASE LENDING RATES

	%		%		%
ABN Bank	15	Clydesdale Bank	15	Nat Westminster	15
Adam & Company	15	Comm. Bk. N.East	15	Northern Bank Ltd	15
Allied Trust Bank	15	Co-operative Bank	*15	Norwich Gen. Trust	15
Allied Irish Bank	15	Coutts & Co	15	PRIVATbanken Limited	15
● Henry Ansbacher	15	Cyprus Popular Bk	15	Provincial Bank PLC	16
Associates Cap Corp	14	Dunbar Bank PLC	15	Roxburghe G'rantee	15½
Authority Bank	15	Duncan Lawrie	15	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Equatorial Bank plc	15	Royal Trust Bank	15
Bank of Baroda	15	Exeter Trust Ltd	15½	● Smith & Williamson Secs.	15
Banco Bilbao Vizcaya	15	Financial & Gen. Bank	15	Standard Chartered	15
Bank Hapoalim	15	First National Bank Plc.	16	TSB	15
Bank Credit & Comm	15	● Robert Fleming & Co.	15	United Bk of Kuwait	15
Bank of Cyprus	15	Robert Fraser & Ptnrs.	15½	United Mizrahi Bank	15
Bank of Ireland	15	Girobank	15	Unity Trust Bank Plc	15
Bank of India	15	● Guinness Mahon	15	Western Trust	15
Bank of Scotland	15	HFC Bank plc	15	Westpac Bank Corp.	15
Banque Belge Ltd	15	● Hambros Bank	15	Whiteaway Laidlaw	15
Barclays Bank	15	Hampshire Trust Plc	15½	Yorkshire Bank	15
Benchmark Bank PLC	15	Heritable & Gen Inv Bnk.	15		
Brit Bk of Mid East	15	● Hill Samuel	§15		
● Brown Shipley	15	C. Hoare & Co.	15		
Business Mtge Bank PLC	15½	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk.	15		
		Midland Bank	15		
		Mount Banking	15		
		Nat Bk. of Kuwait	15		

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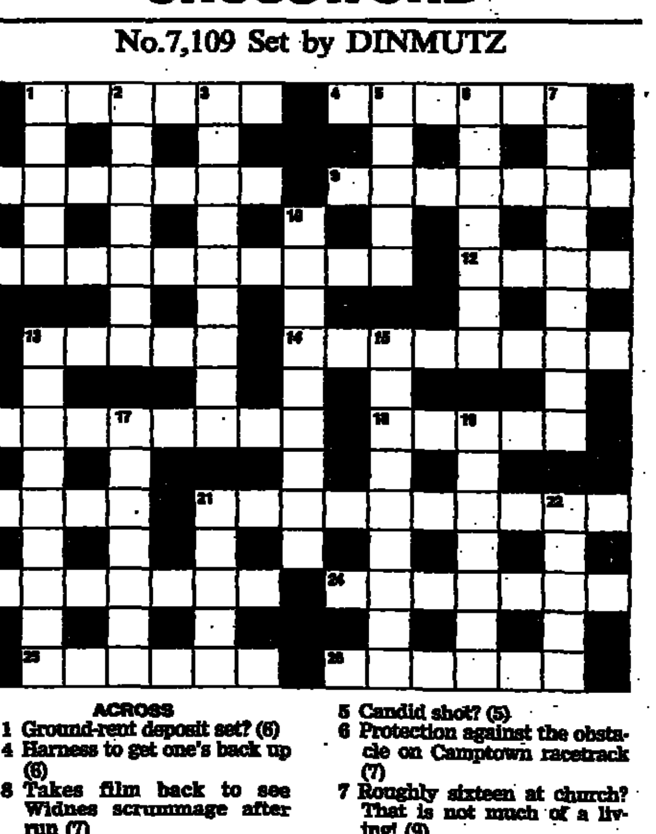
JOTTER PAD

CROSSWORD

No.7,109 Set by DINMUTZ



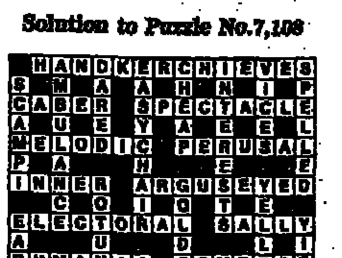
ACROSS

1 Ground-rent deposit set? (6)
4 Harness to get one's back up (8)
8 Takes film back to see Widnes scrummage after run (7)
9 Loud and dishonest amusement-park (7)
11 Bottom of the flying-class? (6-4)
12 Message for celebrity (4)
13 Steps to make the bronzed look disappear? (5)
14 Face fine, possibly, for having stimulant (8)
16 Contemplated being betrothed (8)
18 Lower – look – a daisy! (2-3)
20 Planned go at encircling Julius Caesar (4)
21 Clean forks ordered for this breakfast-food? Surely not! (10)
23 Switched on telly – fish kept in fit! (4-3)
24 Council-flat generator going by air? (7)
25 Surgeon who was endlessly sterile, in a way (6)
26 Supplies for supermarkets (6)

DOWN

1 Composition of article (5)
2 Motorised letter-carrier – v – animal variety? (4-3)
3 This cargo separates the sandalwood from the wine (9)
5 Candid shot? (5)
6 Protection against the obstacle on Camptown racetrack (7)
7 Roughly sixteen at church? That is not much of a living! (9)
10 Ground overcast – it looks very black (5-4)
13 Like Figaro, taking on so in hearing (9)
15 Chilblain, perhaps, not common during Wimbledon fortnight (4-5)
17 Coats produced by seal-men (7)
19 Erstwhile performer – as Shylock? (7)
21 Last of garlic, relish and spice (5)
22 Welshman takes two points to grasp the lead (5)

Solution to Puzzle No.7,108



WORLD STOCK MARKETS

AUSTRIA — BELGIUM/LUXEMBOURG — DENMARK — FINLAND — FRANCE — JAPAN — FRANCE (continued) — GERMANY — GERMANY (continued) — ITALY — ITALY (continued) — NETHERLANDS — SWEDEN — SWITZERLAND — NORWAY — SPAIN — SOUTH AFRICA — AUSTRALIA — AUSTRALIA (continued) — HONG KONG — SINGAPORE

[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible] xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
2pm prices December 6

[illegible]

† - No voting rights or restricted voting rights.

INDICES

NEW YORK

DOW JONES	Dec 5	Dec. 4	Dec. 1	Nov. 30	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2741.68	2753.63	2747.65	2706.27	2791.41 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	93.57	93.59	93.49	93.51	94.15 (2/8)	87.35 (23/3)	—	—
Transport	1220.84	1217.64	1202.35	1170.70	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	228.06	228.18	227.80	224.91	228.18 (4/12)	181.84 (24/2)	228.18 (4/12/89)	10.50 (8/4/32)

♦Day's High 2773.89 (2772.18) Low 2731.23 (2731.02)

STANDARD AND POOR'S	Dec 5	Dec. 4	Dec. 1	Nov. 30	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	349.58	351.41	350.63	345.99	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	399.71	401.52	400.67	395.51	410.49 (9/10)	318.66 (3/1)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	32.24	32.64	32.74	32.40	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	193.19	194.07	193.66	191.30	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	374.88	374.66	375.58	373.84	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	458.55	458.28	457.10	456.09	485.73 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Dec 1	Nov 24	Nov 17	year ago (approx.)
Dow Industrial Div. Yield	3.87	3.97	3.93	3.79
	Nov 29	Nov 22	Nov 15	year ago (approx.)
S & P Industrial div. yield	2.96	2.98	2.98	3.21
S & P Indl. P/E ratio	14.59	14.51	14.40	12.64

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Frst Intstate	2,835,700	53¼	− ½
IBM	2,216,700	99⅝	+ ⅜
Reebok Int.	1,991,700	18¾	+ ⅞
Circle K	1,840,400	3½	− 1
Philip Morris	1,799,600	42⅝	− ½
USX Corp	1,771,600	36⅞	− ⅞
Navistar Int.	1,703,900	3⅞	
Chevron	1,648,800	70¾	− ⅛
Turkish Inv	1,616,300	12⅛	
Gen Electric	1,528,400	63⅜	+ ¼

TRADING ACTIVITY

† Volume (Millions)	Dec 6	Dec 4	Dec 1
New York	154.640	150.360	199.200
Amex	12.348	12.209	13.103
NASDAQ	132.024	113.780	138.467
Issues Traded	1,976	1,975	1,979
Rises	650	804	1,004
Falls	834	698	509
Unchanged	492	473	466
New Highs	92	112	103
New Lows	41	47	38

CANADA

TORONTO	Dec 5	Dec 4	Dec 1	Nov 30	1989 HIGH	1989 LOW
Metals & Minerals	3369.31	3366.52	3357.11	3353.24	3919.2 (1/9)	3207.5 (3/1)
Composite	3939.84	3952.66	3958.65	3942.77	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	2007.53	2018.00	2012.59	1999.76	2069.68 (10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec. 6	Dec. 5	Dec. 4	Dec. 1	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1639.6	1637.1	1646.4	1624.7	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	802.3	802.6	820.7	814.1	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	437.92	429.43	426.20	416.37	515.09 (11/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6575.49	6564.47	6560.18	6551.89	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	360.93	359.27	358.94	357.07	360.93 (6/12)	275.49 (27/2)
FINLAND						
Unitas General (1975)	(c)	626.3	626.6	616.4	815.8 (18/4)	580.8 (23/11)
FRANCE						
CAC General (31/12/82)	542.6	543.8	540.3	531.2	561.6 (11/10)	417.9 (4/1)
Ind. Tendance (30/12/88)	125.7	124.3	124.5	122.8	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	695.74	684.01	689.55	677.24	695.74 (6/12)	535.78 (27/2)
Commerzbank (1/12/53)	2054.4	2018.8	2034.9	1996.6	2056.8 (10/10)	1595.7 (27/2)
DAX (30/12/87)	1658.35	1626.61	1634.31	1612.44	1658.35 (6/12)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2756.39	2764.44	2767.46	2756.90	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1732.79	1719.90	1712.58	1708.95	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	667.87	667.96	670.21	667.27	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	37654.29	37494.17	37303.87	37132.68	37654.29 (6/12)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2867.32	2850.82	2837.73	2819.63	2867.32 (6/12)	2366.91 (6/1)
2nd Section (4/1/68)	3754.16	3744.59	3731.32	3714.33	3804.11 (9/10)	2774.38 (27/3)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	262.3	263.8	262.3	259.3	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	201.3	202.5	201.4	199.1	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	640.18	632.42	628.93	629.27	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	(c)	(c)	(c)	(c)	1396.26 (20/11)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1443.33	1431.39	1426.13	1408.51	1443.33 (6/12)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	2116.0§	2084.0	2133.0	2120.0	2149.0 (24/11)	1291.0 (15/2)
JSE Industrial (28/9/78)	2659.0§	2618.0	2608.0	2594.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	883.27	884.12	891.13	898.77	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	(c)	306.55	305.00	303.77	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4000.6	3977.0	3962.8	3999.6	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	770.4	771.0	772.5	770.7	829.1 (6/9)	613.1 (3/1)
TAIWAN**						
Weighted Price (30/6/66)	8289.56	8701.15	8665.85	8931.28	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	785.40	(c)	778.28	769.14	792.20 (21/11)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	555.2	555.0	552.5	555.2 (6/12)	487.6 (13/6)

**Saturday Dec. 2: Taiwan Weighted Price: (c) Korea Comp Ex. 896.34.
§ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Wednesday December 6 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sumitomo Mt Ind	88.1m	930	+7	DIC	18.3m	967	-7
Kobe Steel	34.2m	870	+15	Mitsui E&S	16.7m	893	-7
NKK	28.5m	842	-10	Nikkatsu	13.9m	833	+32
Toshiba	19.9m	1,320	0	Hitachi Zosen	13.8m	920	-15
Nippon Steel	18.4m	840	-7	Kawasaki Steel	12.6m	890	-7

3pm prices December 6

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	22¼	AAR	.48	1.3	22	167	36⅞	35¾	36	– ⅝
9⅝	8⅞	ACM n	1.01	11.		84	9⅜	9¼	9⅜	+ ⅛
11⅝	10⅞	ACMIn	1.26	11.		440	11⅞	11¼	11⅞	+ ⅛
10⅛	8	ACM M	n1.01	12.		394	8⅞	8⅞	8⅞	
11½	10	ACM Sc	1.26	11.		762	11¼	11⅛	11⅛	
9⅝	8⅞	ACMSp	1.01	11.		612	9⅜	9⅛	9¼	+ ⅛
18	11½	AL Lab	.12	.7	17	256	16⅞	16½	16½	
4⅛	3⅛	AMCA	.12e	3.6	23	163	3⅜	3⅜	3⅜	– ⅛
6⅛	4⅛	AM Intl			9	1377	4⅞	4⅞	4⅞	+ ⅜
23⅛	19	AM In pf	2	10.		30	19⅞	19⅛	19⅛	– ⅛
107¼	51½	AMR			6	2832	65⅞	65	65⅞	+ ⅛
27	25	ANR pf	2.67	10.		2	25⅞	25⅞	25⅞	
6½	3⅝	ARX				122	3⅞	d 3½	3⅝	
67½	37⅞	ASA	3a	6.5		667	64⅞	63⅞	64⅛	+ ½
30⅜	15½	AVX	.24	.8	29	193	29⅞	29⅝	29⅞	
70⅜	46	AbtLab	1.40	2.0	19	1729	69¼	68⅝	68⅞	– ⅝
18⅛	12¼	Abitibi g	1			13	12⅜	12¼	12⅜	
13	7⅝	AcmeC	.40	4.1	13	65	9⅞	9⅞	9⅞	+ ⅛
9⅛	5⅞	AcmeE	.32	3.8	11	15	8⅜	8⅜	8⅜	– ⅛
38½	22	Acuson			22	1562	33⅛	32½	32½	– ⅝
15⅛	12⅞	AdaEx	2.06e	13.		61	15⅞	15½	15⅝	+ ⅛
12⅜	6½	Adobe				247	12¼	11⅞	12⅛	+ ⅛
19⅝	18½	Adob pf	1.84	9.9		6	18⅞	18⅝	18⅝	– ⅛
21⅝	19⅞	Adob pf	2.40	11.		5	21¼	21¼	21¼	+ ⅛
10⅛	7⅛	AMD				548	7⅝	7⅛	7⅝	+ ⅜
35	28½	AMD pf	3	10.		12	30	29⅞	30	+ ⅛
10⅛	6⅝	Advest	.16	1.8	13	108	9⅛	9	9	
62½	46	AetnLf	2.76	4.5	10	2112	61⅞	61⅛	61⅞	+ ⅛
14	11⅞	AfIPb	.24	2.1		1574	12⅛	d11⅝	11⅝	– ⅜
25	15⅛	Ahmans	.88	4.8	9	3246	19	18⅜	18⅜	– ⅛
3⅞	2⅛	Aileen				6	2½	2½	2½	– ⅛
[illegible]										

Continued on Page 43

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
69	54¼	Xerox	3	5.0	16	1794	60⅛	59½	59¾	− ⅜
47⅞	43⅝	Xerox pf				200	47	46⅞	47	+ ¼
49	44½	Xerox pf4.13		8.8		28	47	47	47	+ ½
44¼	23¾	XTRA	.72	2.7	8	133	27⅞	26½	26⅝	− ⅝
33	21¾	XTRA pf1.94		8.3		78	23½	23¼	23¼	− ¼
4¼	2	Zapata				1387	3⅛	3	3⅛	+ ⅛
13¼	8	Zemex	.20	2.5		13	8¼	8⅛	8⅛	− ⅛
21½	11½	ZenithE				1579	13¾	13⅜	13⅜	− ⅜
2½	7-32	vjZenLb				184	9-32	¼	¼	
21½	15¾	ZenNtl	.84	4.5	9	12	18⅞	18⅞	18⅞	− ⅛
10	6⅞	Zenix	1.20	16.		165	7¾	7½	7⅝	− ⅛
18½	12¾	Zero s	.40	2.7	14	68	14⅞	14⅝	14⅞	
44¼	25¾	Zurnin	.76	2.0	18	106	38¼	37¼	37½	− ⅜
12⅜	10	Zweig	1.12e	9.2		324	12⅛	12	12⅛	+ ⅛
9⅞	8¾	ZweigTl	.96	9.8		1200	9⅞	9¾	9¾	− ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices December 6

NASDAQ NATIONAL MARKET

3pm prices December 6

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
WmSon s		27	3	28¾	27⅛	28¾	+ ⅛
WlmTr	1.24	11	345	38½	37¾	38	− ¼
WiscTy		10	75	12⅞	12½	12½	− ⅜
WisprO	.40	22	35	18⅞	18	18⅛	+ ⅛
Wolohn	.28b	10	52	18¾	18¼	18¼	+ ½
WWEx h			3497	12⅛	11½	12⅛	+ ½
Worthg	.56	17	861	24⅝	24¼	24½	− ⅛
Wyman	.80		585	14¾	14¼	14¼	
−X−Y−Z−							
XL Dta s		6	3551	8	7⅛	8½	+ ½
XOMA			213	21¾	21¼	21½	
Xicor		7	1992	3⅞	3⅝	3¾	
YanEnS	.78e		21	22	21½	22	
YelowF	.76	12	875	27½	26⅞	26⅞	− ⅝
YorkRs			64	7⅛	7	7⅛	
ZionUt	1.44		4	29	29	29	

FINANCIAL TIMES

Thursday December 7 1989

AMERICA

Dow slips in wait for jobs statistics

Wall Street

DULL TRADING continued on stock exchanges yesterday as dealers maintained cautious positions prior to tomorrow's November employment figures, *writes Janet Bush in New York.*

At 2 pm, the Dow Jones Industrial Average was quoted 6.83 lower at 2,734.85 in slow volume of 94m shares by midsession. The Dow had lost 11.95 on Tuesday to 2,741.68, ending a run of three daily gains which had taken the blue chip index to its highest closing levels since the mini-crash of October 13.

The only economic news yesterday was the publication of the US Federal Reserve's latest Tan Book of regional reports on economic activity. It offered a similar picture to the one painted by the last report – of sluggish economic growth and subdued price pressures. The report said that there was continuing softness in manufacturing, but that there were also isolated areas of strength in this sector.

The report had little impact on financial markets, as it did not give a particularly strong signal to the Fed to ease monetary policy, but simply confirmed what is now a widely held perception of the economy.

Neither the bond nor stock market has had any motivation to do anything this week, with little fresh economic news coming out and continued uncertainty about whether the Fed will lower its Fed Funds rate target to 8¼ per cent from 8½ per cent.

Probably the most interesting financial market was the foreign exchange market, although developments there failed to spark life in stocks and bonds. The dollar continued to weaken, particularly against the D-Mark, provoking supportive comments from Mr David Mulford, US Treasury undersecretary.

In the stock market, technology issues continued to be weak. The performance of IBM on Tuesday had been disappointing after the company's announcement of a significant restructuring, including the cutting of 10,000 jobs. IBM fell $⅞ to $98⅞ yesterday, leaving it below the level it was trading at before the announcement. It remains below its low immediately after the October 1987 Crash of $102.

Among other technology issues, Cray Research was $⅝ lower at $38 and Digital Equipment was down $1¼ at $86½, but Motorola added $¾ to $58⅞.

Car stocks continued to be sluggish. The Fed's Tan Book noted that consumer spending on non-durables remained quite strong, but was weak in durables such as autos. On Tuesday, late November US car sales figures showed that General Motors' market share had fallen to its lowest level for several years.

Ford Motor slipped $¼ to $45 and General Motors was unchanged at $44½, while Chrysler recovered from an early loss to gain $⅛ to $19⅞.

Among featured individual stocks, McGraw Hill added $¼ to $63¾. A long-time takeover candidate, the stock rose on reports that it may be considering a restructuring.

Canadian Pacific jumped $1¼ to $22¾ on news that the company plans to spin off its real estate unit next year.

Saatchi & Saatchi rose $1⅛ to $13⅝ in spite of reporting a drop in pre-tax profits of 48 per cent in the year ended September 30. This was nevertheless better than expected.

Canada

HEAVY TRADING in Canadian Pacific and Air Canada pushed Toronto stocks higher in mixed, midsession trading. The composite index gained 11.2 to 3,951.1 on volume of 13.7m shares. Declines led advances by 249 to 171.

Canadian Pacific, up C$1¼ at C$26⅝, announced the spin-off of 80 per cent of its stake in Marathon Realty, the real estate company, and a one-for-one rights issue, in a move to prevent any takeover.

Air Canada gained C$⅝ to C$13⅛. The company said it would sell part of its 14.6 per cent stake in GPA Group.

SOUTH AFRICA

GOLD STOCKS led an afternoon advance in Johannesburg after a quiet opening. Positive factors included the stable bullion price, the weak financial rand and demand for mining and industrial issues. De Beers, the diamond miner, gained R1.70 to R65.90 after announcing it would proceed with its R1.1bn diamond mine development in the Transvaal.

Others pay for West German surge

Alison Maitland analyses last month's European turnover figures

AS THE German populace clambered over and through the Berlin Wall last month, the West German bourse rose to the occasion and celebrated with a surge in trading activity and share prices.

Volume climbed to near record levels during the three days that straddled the breach of the Wall, making Germany the only European market to show an increase in turnover compared with October, the month of the hectic mini-crash.

November began very slowly in Germany, with trading levels around their lowest of the year as investors struggled to find their feet after the drubbing of October 16, when Frankfurt share prices plunged 13 per cent.

After the first week, things picked up rapidly, says Mr James Cornish of County Nat West Woodmac. "There were two enormous spikes, first on the opening of the Wall and the second right at the end of the month coinciding with, but not caused by, the bombing of [Deutsche Bank chief executive] Alfred Herrhausen.

"That somehow did release spirits in a curious way. It started with a 'let's show 'em,' Churchillian type response; then there was a second wave of euphoria over what was going on in the East."

The peak of the month was on November 13, the Monday after the Wall started coming down, when DM9.6bn worth of German shares changed hands, only slightly lower than the high of DM10.3bn reached on June 20. Then, on December 1, the day after the assassination of Mr Herrhausen, turnover hit DM10bn; yesterday it climbed to DM10.3bn again.

Germany recorded a 6 per cent increase in volume over October. But the momentous events there contributed to a heavy fall in turnover levels on other bourses, which were also suffering from post-October caution, worries about high short-term interest rates and confusion over economic signals from the US.

France was the worst affected, dropping 45 per cent in volume terms. Having been fed with strong takeover stories such as Suez-Victoire and Paribas-Navigation Mixte throughout the summer and autumn, it was left with less meaty speculation, which failed to sustain the market as a whole. For a couple of days, French building materials companies aroused interest on the German immigration theme, but Paris spent most of November shadowing Wall Street.

EUROPEAN EQUITIES TURNOVER Monthly total in local currencies (bn)				
Bourse	Nov	Oct	Sep	Aug
Belgium	70.0	89.6	85.2	82.0
France	96.4	174.8	145.8	102.0
Germany	110.9	104.6	104.5	115.5
Italy	13,260.0	20,010.0	21,800.0	27,080.0
Netherlands	16.1	19.2	18.6	16.0
Spain	419.0	522.0	605.0	578.6
Switzerland	16.6	20.8	20.5	24.2

Volumes represent purchases and sales. Swiss and Belgian data estimated. Italian data adjusted to include off-market trading. Some figures may be revised. Source: County NatWest WoodMac

The Netherlands had a dismal month, with turnover falling 18 per cent. On November 13, when Germany was at its peak, Dutch volume shrank to Fl 455m, one of its poorest levels of the year. The Dutch market took third-quarter results from Wessanen, Akzo, and Royal Dutch badly and turnover failed to improve much when the insurance companies came in with buoyant results.

Mid-November was a significant time for the Spanish *bolsa*, too, as the general index fell below the 300 level. Over the month, volume dropped by 20 per cent, amid signs that interest rates would stay high.

Italian volume fell by 34 per cent as the November "account of the dead" drew to a close and the new December account proved similarly lifeless. Milan was tangled up in its own corporate swathes, such as Nuovo Banco Ambrosiano and Enimont, and activity was further dampened by bank strikes.

Belgium fell by 22 per cent and Switzerland by 20 per cent. County NatWest WoodMac has introduced a more accurate method of estimating share turnover in Switzerland, so the figures for the past four months have been revised.

ASIA PACIFIC

Nikkei bounces back in defiance of cooling move

Tokyo

AN OFFICIAL move to curb the market failed to cool investors down yesterday, and share prices closed at a third consecutive record, *writes Michiyo Nakamoto in Tokyo.*

Tuesday's announcement that the Tokyo Stock Exchange would tighten rules on margin trading gave the market an early jolt and share prices took a drop of 139 points in the first 15 minutes of trading. However, three-quarters of an hour later, the Nikkei average was moving up, a trend it managed to sustain for the rest of the day.

After falling to a low of 37,299.36, the Nikkei closed at its high for the day of 37,654.29, up 160.12. Advancing issues outnumbered declines by 562 to 374 while 195 issues were unchanged.

Turnover retreated to 1.2bn shares from the 1.4bn traded on Tuesday and the Topix index of all listed shares rose 16.50 to 2,867.32. In London, the ISE/Nikkei index edged up 0.54 to 2,169.15.

The decision by the TSE to tighten margin trading rules had little effect, said Mr Chuck Lambert at Jardine Fleming Securities. The market has become institutionalised, and individual investors trading at the margin are not as important as they used to be.

At the same time, the value of stocks traded at the margin is currently at a record high level, but this is relatively moderate as a proportion of market capitalisation at 1.42 per cent, against 2 per cent which would be considered a danger signal.

This is the first time the TSE has tightened margin requirements in 10 months. In the past, moves to tighten margins have come in series: the first tends to be seen as a bullish indicator for the short term, said Mr Lambert; the second has a moderate impact; but it is not until the third that the market sees a real correction.

The market did subside in places yesterday as some big steel companies, which have risen strongly in recent sessions, suffered losses. NKK, third in volume with 28.5m shares, fell Y10 to Y842. Nippon Steel dropped Y7 to Y840 in active trading.

On the other hand, Sumitomo Metal Industries topped the most-actives list in 58.1m shares as it rose Y7 to Y930, while Kobe Steel followed with 34.2m shares, closing Y15 better at Y870.

Attention turned to low-priced laggards. Nikkatsu, a producer of movies and video software, gained Y32 to Y693 in active trading. Nikkatsu has the lowest price in the first section, and has been said to be the target of speculative buying.

Retailers were also selected as domestic laggards, with department stores Mitsukoshi and Takashimaya up Y90 and Y110 at Y2,620 and Y3,600 respectively and Jusco, the supermarket chain, Y80 higher at Y3,000.

Special situation issues, especially those which have attracted takeover talk, were popular. Toyo Sanso, an oxygen producer, rose Y240 to a record high of Y3,790 during the day on rumours that a well-known speculator was buying its shares. It closed up Y180 at Y3,730.

Osaka took tighter margin trading rules in its stride and the OSE average climbed to its 12th consecutive record of 38,747.18, up 144.98. Volume rose only slightly to 119m shares from 118.5m on Tuesday. Nintendo, the video games maker which is expected to benefit from increased demand before Christmas, rose Y200 to Y25,900.

Roundup

UNEASY for the most part, Pacific Rim markets tended to ignore Tokyo's lead yesterday, and concentrate on their own concerns.

TAIWAN tumbled again in the wake of vote-rigging protests following Saturday's election. The weighted index dropped 417.59, or 4.8 per cent, to 8,283.56, its lowest level since mid-July, and volume shrank from NT$92bn to NT$61bn. The outcome of a recount agreed by the Nationalist Government is not expected until tomorrow.

The market was also affected by rumours that the Hong Yuan Group, a big stock market trader, has been having financial problems. The group denied this, but four companies associated with its market activity – China Wire & Cable, Oceanic Beverage, Grape King and Right Way – dropped by the 7 per cent limit for the fourth consecutive session.

SINGAPORE, on the other hand, rose for the 18th consecutive session and hit a post-1987 Crash high as the Straits Times industrial index put on 11.94 to 1,443.33. Volume rose to 94m shares and S$219.5m from 69m and S$160m.

Continuing overseas institutional buying and renewed local investor interest were spiced with takeover rumours involving, among others, UIC, Singapore Land and Hind Hotel. Among the day's main gains were Time Engineering, up 48 cents at S$4.68, and Far East Shipbuilding, 24 cents higher at S$4.86.

AUSTRALIA mostly steadied, but Bond Corp and some of its associates plunged amid speculation over their financial health.

The All Ordinaries index edged up 2.5 to 1,639.5 after a 9.3 fall on Tuesday as mining issues tumbled on a sharp fall in the gold price. Turnover fell to 93m shares and A$169m from 103m and A$201m.

Bond Corp dropped 7 cents to 14 cents on turnover of 750,000 shares, while Bond Media fell 3 cents to 12 cents. Late on Tuesday, publisher Mr Kerry Packer, who is bidding an effective 10 cents a share for Bond Media, was extremely doubtful about the Bond group's prospects.

News Corp led winners in the industrial section with a 60-cent rise to A$14.90.

James Hardie Industries rose 6 cents to A$2.68 on a 30 per cent rise in first-half net profits.

NEW ZEALAND blamed Australia as the Barclays index fell 21.28 to 2,051.35, in volume down to 5.9m shares from 9.8m. Brierley Investments dominated trade with 2.2m shares traded as it fell 6 cents to NZ$2.05.

EUROPE

Eastern promise swells Frankfurt volume

THE POLITICAL miracle in Eastern Europe brought Frankfurt back into the van yesterday, although other senior markets had their talking points, *writes Our Markets Staff.* Madrid and Helsinki were closed for public holidays.

FRANKFURT broke one record, and equalled another as it built on Tuesday's afternoon rally. A flood of foreign buying, and a gradual increase in the commitment of domestic investors, took the DAX index up 31.74, or 2 per cent to a record high of 1,658.35.

Volume rose from DM7.8bn to DM10.3bn, equalling the June 20 level which was believed to be an all-time high. The East/West rapprochement combined with strong domestic prospects and a foreign taste for the D-Mark after its rise this year.

The rally was led by Volkswagen, which sparked off Tuesday's recovery with its joint venture plans for East Germany; yesterday VW demolished its DM500 resistance level with a DM16.10 rise to DM516, and topped turnover at DM1.27bn.

Blue chips had another good run with Deutsche Bank, second in volume with DM1.07bn, climbing DM10.10 to DM740 and Siemens up DM8 at DM658. Mannesmann, third with DM1.02bn, rose another DM19 to DM340 to take its five-day rise up to 27 per cent. A UK broker is said to have estimated that Mannesmann's cellular telephone consortium could make a DM4bn profit out of the Bundespost deal.

PARIS showed a solid rise, although activity was confined to the Paribas group and a very strong oil sector. Indeed, one analyst said the market was really consolidating, in spite of the 1 per cent rise in the indices. He estimated that volume was down from FFr3bn to about FFr2.5bn.

Paribas surprised most observers by climbing FFr28 to FFr669 in turnover of 580,000 shares, raising speculation that the banking group might again be under counter-attack from Navigation Mixte, the target of its hostile bid.

It emerged yesterday that Parfinance, a financial holding company which is a core shareholder in Paribas, had recently raised its stake to 5 per cent. Friendly shareholders UAP and Axa-Midi have similarly rallied round in recent weeks.

The OMF 50 index rose 5.38 to 537.20 and the CAC 40 was up 21.03 at 1,960.29.

MILAN went nowhere, on balance, as it mulled over the November mutual funds figures and the Ferruzzi/Fondiaria/Gaic deal. The Comit index recouped early losses to close 0.09 lower at 667.87 in relatively active trading.

Mutual funds, had a net outflow of L255bn in November; equity funds alone had a net inflow of L83bn. But the funds were net sellers of L550bn, the L550bn splitting as to L100bn of foreign investments, L150bn of bonds and L300bn of domestic equity.

This suggests that equity fund managers decided to increase their liquidity substantially, which suggests a cautious approach to prospects for the market.

Trading in La Fondiaria resumed following suspension and Ferruzzi's sale of its 49 per cent stake in the insurance group to Gaic. Fondiaria rose L290 from last Friday's pre-suspension price to L58,000, disappointing after the L3,600bn transaction indicated a price of L86,000 a share.

AMSTERDAM had another quiet day, with turnover at a fairly thin Fl 604m and the CBS tendency index falling 0.7 to 186.8 after early declines on Wall Street.

NMB-Postbank closed steady at Fl 47 after the offer price for the privatisation of a 30 per cent stake in the newly-merged bank was fixed at Fl 46.50. Nedlloyd, the transport stock, gained Fl 1.20 to Fl 86.60 before news that the company expects a profit increase this year of at least 56 per cent.

OSLO remained in a positive frame of mind, as industrial issues attracted buyers. The all-share index gained 3.59 to 496.90 on turnover of NKr333m.

Norsk Hydro advanced NKr2.5 to NKr157.5 in busy trading after it said it had upgraded by 10 per cent the recoverable oil reserves at the Oseberg field, in which it has a 13.75 per cent stake. Saga Petroleum, which has a 8.61 per cent stake in the field, picked up NKr2.5 to NKr52.5.

Aker, which raised its holding in Spanish cement producer Valenciana last week, rose NKr3.5 to NKr102.5.

STOCKHOLM *concentrated* on the possible merger of PK-Banken and Nordbanken, both of which were suspended before an announcement today. The Affärsvärlden General index gained 7.0 to 1,164.4 in moderate trading.

Ericsson, the telecommunication group, saw its free B shares gain SKr6 to SKr834, in the day's largest turnover of SKr18m, on rumours of a large order from the US.

BRUSSELS was pulled higher by gains in holding company Société Générale de Belgique, which added BFr90, or 2.7 per cent, to BFr3,470. It is expected to announce a restructuring of its non-ferrous mining and metallurgical interests today. One of its non-ferrous metals units that is not expected to be involved in the move, Asturienne, rose BFr88, or 6.9 per cent, to BFr1,360.

VIENNA surged again, as the Credit Aktien index added 8.49 points, or 2 per cent, to 437.92. Girozentrale, the Austrian bank, predicts continued, long-term interest in the bourse. "The next strong rally is already pre-programmed, due to the thinking of many companies, which should mean that growth in both business volume and profitability in the next few years will be well above the international average," writes the bank in its November trends publication.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

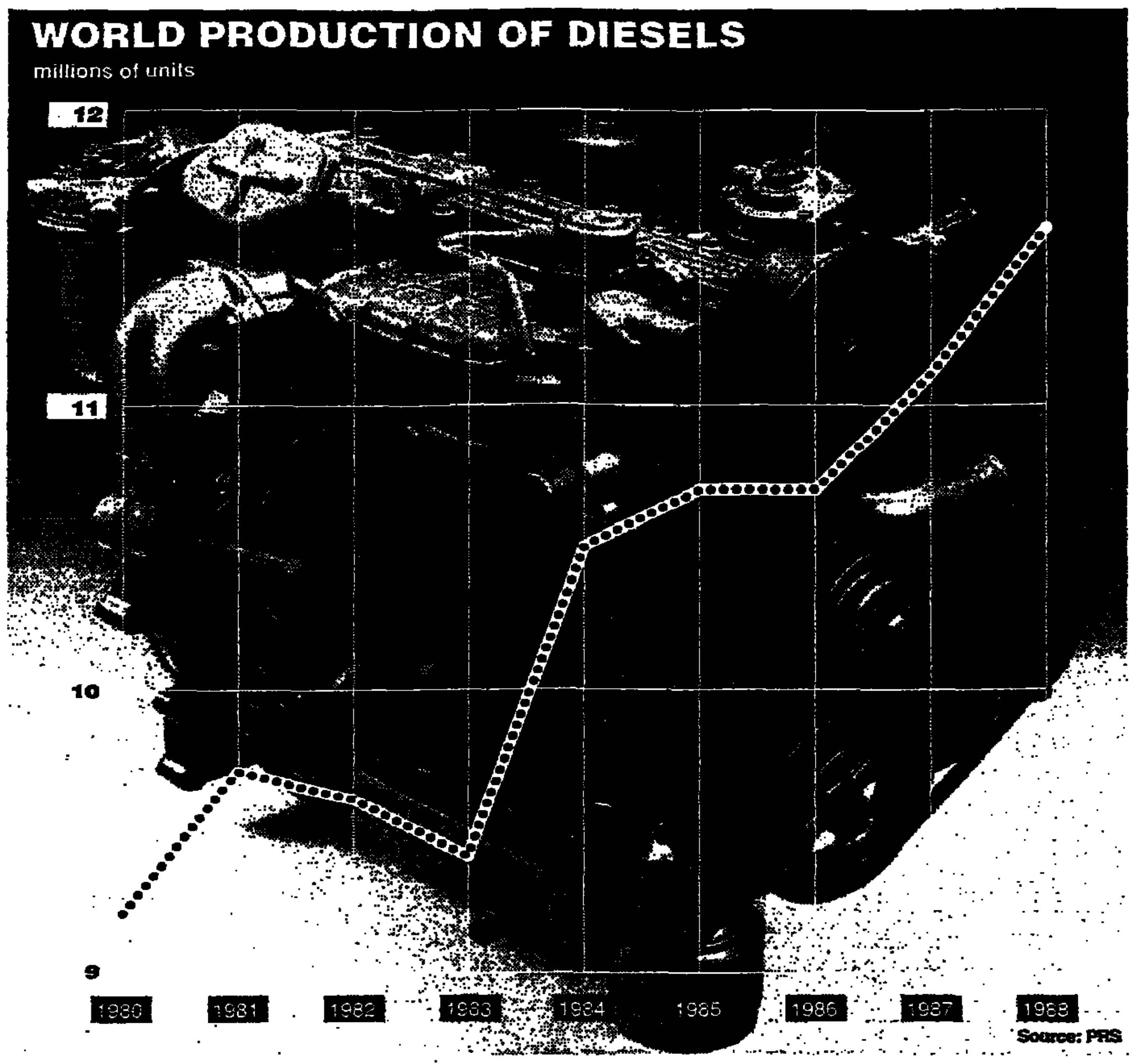
NATIONAL AND REGIONAL MARKETS	TUESDAY DECEMBER 5 1989						MONDAY DECEMBER 4 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (85)	148.29	−0.3	139.99	126.25	−0.4	5.38	148.79	141.08	126.72	160.41	128.28	146.15
Austria (19)	152.67	+0.8	144.13	141.54	+1.0	1.72	151.44	143.61	140.15	172.22	92.84	98.41
Belgium (63)	148.57	+0.1	140.26	137.21	+0.1	4.05	148.42	140.74	137.07	148.57	125.58	133.57
Canada (122)	149.79	−0.3	141.40	128.14	−0.4	3.22	150.22	142.45	128.67	154.17	124.67	122.73
Denmark (36)	234.68	+0.0	221.54	220.63	+0.2	1.43	234.57	222.43	220.30	234.68	165.35	159.19
Finland (26)	126.86	+1.9	119.76	111.63	+1.9	2.53	124.54	118.10	109.60	159.16	118.63	137.58
France (126)	144.98	+0.3	136.86	137.93	+0.0	2.70	144.57	137.09	137.88	144.98	112.57	110.64
West Germany (96)	108.55	−0.6	102.47	100.22	−0.8	2.06	109.18	103.53	101.06	109.18	79.56	87.57
Hong Kong (48)	116.33	−0.3	109.81	116.69	−0.3	4.88	116.63	110.59	117.00	140.33	86.41	111.23
Ireland (17)	168.19	+0.5	158.77	160.23	+0.6	2.77	167.34	158.68	159.27	168.19	125.00	132.64
Italy (97)	92.84	+0.0	87.45	90.43	−0.4	2.52	92.68	87.89	90.81	96.73	74.97	84.95
Japan (455)	196.88	+0.5	185.86	178.84	+0.6	0.45	195.89	185.75	177.75	200.11	164.22	190.92
Malaysia (36)	210.35	+1.1	198.57	219.22	+1.1	2.42	208.08	197.32	216.87	210.35	143.35	140.01
Mexico (13)	290.67	+0.2	274.40	845.36	+0.4	0.61	289.99	274.98	841.80	326.61	153.32	169.96
Netherland (43)	136.83	+0.8	129.17	125.15	+0.6	4.26	135.80	128.77	124.46	136.83	110.63	110.56
New Zealand (18)	75.85	−0.2	71.60	68.09	−0.5	5.25	75.97	72.04	68.42	86.18	62.64	68.70
Norway (24)	181.46	+0.3	171.30	167.73	+0.3	1.63	180.96	171.62	167.29	198.39	139.92	128.91
Singapore (26)	168.97	+0.8	159.51	151.52	+0.7	1.98	167.59	158.91	150.40	170.62	124.57	118.92
South Africa (60)	173.58	−1.8	163.86	150.27	−0.6	3.81	176.68	167.54	151.16	176.68	115.35	128.28
Spain (43)	159.11	−0.1	150.20	138.74	+0.1	3.78	159.32	151.07	138.62	169.75	143.14	148.94
Sweden (35)	169.70	+0.4	160.20	160.15	+0.4	2.14	169.01	160.27	159.44	188.94	138.45	142.90
Switzerland (64)	92.23	+0.1	87.07	90.89	−0.6	2.06	92.18	87.41	91.40	94.16	67.81	79.25
United Kingdom (304)	148.80	+1.4	140.47	140.47	+1.0	4.39	146.68	139.09	139.09	158.41	133.28	137.80
USA (544)	141.70	−0.6	133.77	141.70	−0.6	3.28	142.55	135.17	142.55	146.29	112.13	113.03
Europe (993)	132.53	+0.6	125.11	123.98	+0.3	3.39	131.76	124.94	123.64	132.95	112.63	114.87
Nordic (121)	172.97	+0.3	163.29	158.16	+0.4	1.82	172.41	163.48	155.56	178.38	137.95	137.29
Pacific Basin (668)	191.93	+0.5	181.19	174.34	+0.6	0.69	191.03	181.14	173.35	194.72	160.44	185.81
Euro−Pacific (1661)	168.26	+0.5	158.84	154.20	+0.5	1.56	167.41	158.75	153.47	168.26	141.56	157.42
North America (666)	142.09	−0.6	134.13	140.71	−0.6	3.28	142.90	135.51	141.53	146.66	112.79	113.54
Europe Ex. UK (689)	121.43	+0.0	114.64	113.88	−0.2	2.72	121.42	115.13	114.12	121.43	98.30	100.43
Pacific Ex. Japan (213)	132.62	−0.2	125.19	118.86	−0.2	4.86	132.83	125.96	119.11	140.05	111.93	124.86
World Ex. US (1856)	167.75	+0.5	158.36	153.43	+0.4	1.63	166.98	158.34	152.77	167.75	141.49	155.90
World Ex. UK (2096)	158.24	+0.0	149.38	150.34	+0.0	1.94	158.23	150.04	150.30	158.24	136.98	139.61
World Ex. So. Af. (2340)	157.28	+0.1	148.47	149.39	+0.1	2.14	157.06	148.93	149.22	157.28	136.67	139.52
World Ex. Japan (1945)	138.58	−0.1	130.82	134.21	−0.3	3.39	138.79	131.60	134.55	140.43	114.51	114.66
The World Index (2400)	157.38	+0.1	148.57	149.39	+0.1	2.15	157.17	149.04	149.23	157.38	136.68	139.43

Latest prices were unavailable for this edition.

SECTION III

FINANCIAL TIMES SURVEY

As the industry has seen a process of rationalisation, Japanese suppliers have been making inroads into the European market — a pressure that will intensify, predicts **Nick Garnett**. At the same time, a range of important technical developments is emerging.



Source: PRS

THE WORLD

Diesel Engines

INDUSTRY

Editorial production: Martin Davies

Mergers accelerate

THE WORLD'S diesel engine industry has been facing up to some of the biggest-ever shifts in its market and structure during the past two years.

Demand for diesels in passenger cars has plummeted, particularly in West Germany and Italy. The French market is the only one that has held up strongly, as a result of which the French diesel industry overtook that of Germany last year as Europe's biggest diesel producer.

At the same time, diesel manufacturers have witnessed a process of gentle rationalisation, which has altered the industry's ownership base. This has happened partly on the back of mergers and take-overs among truck and car makers. But it has also occurred as a result of the battle between Germany's MAN and Wärtsilä, of Finland, both of which have been buying out or taking stakes in other diesel-makers, especially in marine engines.

While all this has been going on, Japanese suppliers have been making substantial inroads into the European diesel market. In the past four years, the Japanese sales share of diesels under 50hp has risen from 7 per cent to 15 per cent, according to Planning Research and Systems (PRS)*, a London-based consultancy that specialises in the automotive and engine industries.

This competitive pressure could get worse, because Yanmar, Japan's biggest diesel-maker appears ready to launch an assault on the European market for small diesels with a new air-cooled engine, in competition with indigenous producers like Germany's Deutz and Lister Petter, of the UK.

A range of technical developments is also emerging in the market. It includes electronic management, to improve emission control; direct-injection, which first appeared on an engine for the Fiat Croma; intercooling; and "turbo compounding" for truck engines — the use of a second turbocharger in the drive train.

Until the start of this year, the world market for diesels had continued to perk up since the depths of recession back in the mid-1980s. Total sales of diesels last year was 11.6m units, compared with 11.1m in 1987. This compares with a slide of 300,000 between 1981 and 1983(9.4m) and a static market of around 10.5m until 1987.

Last year, in terms of application, growth was achieved in commercial vehicles, construction machinery and industrial equipment, while the agricultural machinery market was static.

The only sector to record a fall was the diesel car market, which was down by 100,000 units. This reflected a process over the past two years, during which the penetration of the diesel in the Italian and West German car markets was pushed into reverse.

Environmental issues and general perceptions about emissions from diesels resulted in a reduction in diesel penetration of the German car market, from a peak of 27 per cent in 1986 to about 10 per cent. This affected most car-makers, but Mercedes in particular.

Changes in road taxes contributed to a slide in the Italian market, too. Diesels had achieved a 24.5 per cent share of the car sector, but it is now down to 13 per cent.

The total market for car diesels will probably have fallen again this year, with penetration in western Europe expected to be down a percentage point to 14 per cent. But some observers believe this slide may be coming to a halt, particularly in West Germany, and might even be reversed.

All the main German car-makers have brought out new engines with electronic controls, and Volkswagen has installed a catalytic converter on one of its new diesels.

Environmental issues have left the French market totally unconcerned, and penetration there has continued to grow. The diesel took just over 18 per cent of the French car market in 1987. This has bolstered the strong growth of Peugeot and Renault as diesel producers. PSA's diesel production last year was about 750,000 units. Total diesel production in France is two and a half times higher than in 1982.

Diesel penetration in the Japanese car market is at about 5 per cent. It remains insignificant in the UK, while the car diesel has been virtually wiped off the map in the US. In 1981, 521,000 diesel cars were sold in the US. Last year, the figure was 1,650, almost all of them were German-built Mercedes.

Makers of truck diesels have also been busy on the technical front, with some of the work directed at emissions. Navistar last month announced what it claimed was the first smokeless truck diesel. The International 94 uses a catalytic converter and low-sulphur(0.5%) diesel fuel, and incorporates engine components which result in more complete combustion.

After a strong recovery from the dismal trough of the early 1980s, the European truck market appears to have peaked in the second half of this year, though sale prices remain reasonably healthy. The north American truck market has already moved into a cyclical downturn, and pricing is horrendously tough. This will put extra pressure on all diesel suppliers, in particular Cummins, the large independent US diesel-maker. Its policy of low pricing, aimed at maintaining its share of the market against Japanese suppliers, worked in terms of market-penetration, but the penalty on profits has been drastic.

Japanese producers are still exercising a lot of pressure on the market. Some of this comes from direct exports. In some cases, western makers willingly take Japanese engines to bolster their product lines. Perkins signed a deal last year to sell ISM engines with the Perkins brand-name.

The next stage could come from Yanmar in small diesels. Some European makers of small diesels, like Lombardini in Italy, have abandoned air-cooled technology and moved into water-cooled. Yanmar, family-owned and one of the biggest diesel-makers in the world (it produces 350,000 units a year), has gone the other way and is highly confident about increasing its European penetration for such applications as compressors, mini-tractors and small construction machinery, with its new air-cooled unit.

It is not all one way though. Japanese manufacturing companies provide new opportunities for some European diesel makers. Volkswagen is to supply diesels for the Nissan car plant in the UK and for Toyota vans.

The ownership structure of the industry has been going through some significant shifts. Some of this has been on the back of take-overs among truck-makers who manufacture diesels. The most recent ones include the purchase of the truck operations of Steyr-Daimler-Puch, in Austria, by MAN and the battle for control of Enasa which, along with trucks, also makes about 13,000 diesels a year in Spain. In the long run, these deals are bound to lead to engine rationalisation. Leyland stopped making truck diesels in the UK following its take-over by DAF. There is speculation about the long-term engine strategy of Ford, following the merger of its European truck operations with Iveco.

The recent decision by the cartel office to block MAN's purchase of the engine business of Sulzer of Switzerland — a decision which MAN is challenging at federal government level — is a further twist in the restructuring of heavy, especially marine diesels in Europe.

Over the past few years, the most active participants have been MAN and Wartsila of Finland. The latter company, having watched its German competitor grow through acquisition has adopted a similar policy.

Acquisitions in the past 10 years or so by MAN have included Birmeister and Wain, in Denmark, and, much more recently, Pielstick of France with its medium-speed engines. There is also a link in diesels between MAN and Alsthom of France, which has itself been put into a merged grouping with the heavy-engineering business of the UK's GEC. A deal with Sulzer would consolidate MAN's strong position.

Meanwhile, Wärtsilä purchased an important presence in high-speed diesel engines by obtaining this year a 42 per cent stake in SACM Diesel of France. In October, it acquired 60 per cent of Stork-Werkspoor Diesel, the Dutch medium-speed diesel maker, having already bought two companies in Scandinavia.

Other changes include a type of management buy-out at VM, in Italy and, last year, the merger of the distribution networks in north America of Perkins and Detroit Diesel.

* *World Engine Study, £600. World Engine Digest £245. PRS, 44-48 Dover St, London W1X 3RF.*

DIESEL ENGINES INDUSTRY 2

TECHNICAL DEVELOPMENTS: the big challenges are consumption and emissions

A future friend of environment

THE DIESEL engine is the natural choice of power unit in a wide range of applications, without serious competition from alternative prime movers. Yet it is subject to considerable economic and legislative pressures to develop and improve its performance.

In the case of large engines running continuously for long periods, the cost of fuel dominates most other factors; and designers strive to reduce fuel consumption and increase tolerance to cheaper fuels of poorer quality.

Such is the achievement of the very large slow-speed marine engines that they can operate on fuel that it would be difficult to burn in a grate.

In addition to the drive to reduce fuel consumption, the diesel is under pressure to reduce the level of exhaust emissions released to the atmosphere. This requirement has become critical in the passenger-car market, and is rapidly approaching in the truck sector. In non-automotive applications, it is also important, particularly for agricultural and construction equipment.

The critical area in which technical developments can improve fuel consumption and reduce emissions is the control and management of combustion. As a result, much attention is being paid to the development of improved fuel-injection systems and of electronic management of the overall combustion process.

In the passenger-car sector, electronic control of ignition timing and other parameters has been in use for several years on gasoline engines. One of the attractions of the diesel engine is that, traditionally, it has been mechanically controlled and has achieved greater reliability from its independence of electrical systems.

However, with the continuously improving efficiency of gasoline engines and the rapid change in attitudes to exhaust emissions, the passenger-car diesel is being forced to consider electronic control, both to maintain its advantage in fuel consumption and to meet perceived and legislated levels of exhaust emission.

Electronic engine management control systems are already offered on some diesel cars, and a recent study by automotive consultants PRS, in western Europe, found that most car manufacturers expect to incorporate them on their diesel models by 1992. The exceptions were producers of small diesel engines, which can more easily meet the existing and proposed legislation.

The objective of electronic systems in a diesel engine is to control the timing and quantity of the fuel injected into the combustion chamber. In addition, turbocharger pressure and exhaust gas recirculation can be controlled. Electronic control can offer up to 5 per cent savings in fuel consumption, and enables significant reductions in exhaust emissions to be achieved.

With electronic control, diesel passenger cars are likely to be able to meet future exhaust emissions legislation. In response to the adverse public attitude to diesel cars, particularly in Germany, in the past year, the major producers, Mercedes-Benz, VW and BMW, have all made considerable progress in reducing emissions levels. VW has introduced a diesel version of the Golf with an oxidation catalyst, resulting in very low hydrocarbon and carbon-monoxide levels, more as a gesture to public concern than as a requirement to meet exhaust legislation.

The biggest unsolved problem for diesel passenger cars is the development of a regenerative particulate trap to remove soot particles from the exhaust. This has been a real concern, particularly for the Californian market where the legislation is very strict indeed. However, developments in combustion-chamber design and the application of electronic engine management systems have ensured that, at least in western Europe, where the major demand for car diesels exists, the particulate trap will not be necessary.

For a long time just round the corner, but at last coming into sight, is the direct-injection passenger-car diesel. Direct injection offers up to 20 per cent better fuel economy and is a major factor in the diesel engine's competitive future. Its main disadvantages have been emissions levels and noise, and these have so far limited its use mainly to vans, although Rover and Fiat both offer direct-injection engines in some models.

Exhaust emissions can be reduced only by tighter control of the fuel and combustion systems, and this will be achieved through electronic control and high-pressure fuel injection.

The noise problem is being addressed though the use of a two-stage injector. This allows a small volume of fuel to be injected ahead of the main injection, and has the effect of reducing the rate of pressure rise (and hence noise) in the cylinder.

Whereas car diesels look capable of meeting future legislation without fundamental change, the same cannot be said for heavy trucks. Here, the combined demand for reduced consumption and lower emissions will dominate developments over the next decade. Electronic control of fuel injection will be universally used to optimise combustion, control injection duration more tightly, and reduce emissions.

Both injection pressure and rate will be significantly increased, with fuel pressures up to 1500 bar being achieved in pump/line systems and possibly up to 2200 bar with unit injectors. Variable valve-timing, already used on some advanced passenger-car engines, will be used to optimise aspiration at varying engine speeds, improving fuel consumption and cold starting.

Turbocharging and aftercooling will be developed, to achieve greater efficiencies. Variable geometry turbo charges will be used to optimise efficiency across the speed range, and ensure adequate boost at low speeds to control emissions. Ceramic turbocharger components will be used to increase temperature limits and reduce inertia.

There is considerable interest in turbo-compounding, and it is accepted that this technology will find applications in heavy-duty trucks. Scania is a leader in this development. Exhaust port and manifold insulation, through the use of ceramic liners, will reduce heat loss and increase the benefits of turbocharging and compounding.

Insulating coatings, and even monolithic layers, may be used on piston-crowns and cylinder-heads to reduce heat loss to the coolant. Other ceramics applications are likely to include piston-rings and valve train components, to reduce friction and wear.

Although the true adiabatic engine is no longer an objective, efforts are being made to raise temperatures within the combustion chamber, and a critical requirement here is the development of high-temperature resistant synthetic lubricants.

Particulate traps will be essential to meet 1994 legislative limits and, in contrast to passenger-car applications, considerable progress has been made in the truck and bus sector.

Three types of operation have been considered. In the first, the trap acts only as a filter, and is not regenerative. In the second, the trap is regenerated by burning off the soot particles at specific intervals when the engine is not operating. The third approach is fully automated, and the soot is burned off when the back pressure reaches a predetermined level. This takes place while the engine is running, and does not interfere with normal operation.

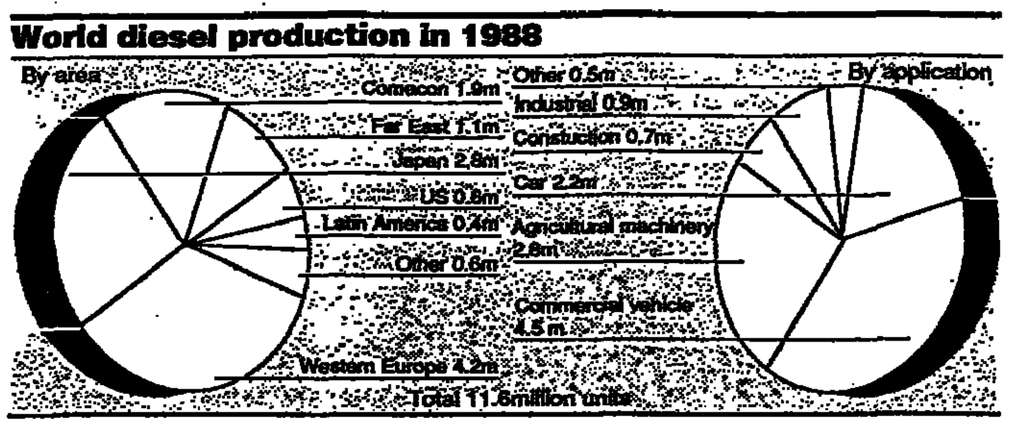
Although it will be difficult and expensive to reduce diesel engine emissions to very low levels in the future, the increasing concern about carbon dioxide will be seen to be a powerful arguement in favour of diesels. Carbon dioxide emissions cannot be processed or converted, and their volume is in direct proportion to the quantity of fuel burned.

Since the diesel engine uses significantly less fuel than any of its competitors, it is likely to achieve a new reputation as an environment-friendly choice.

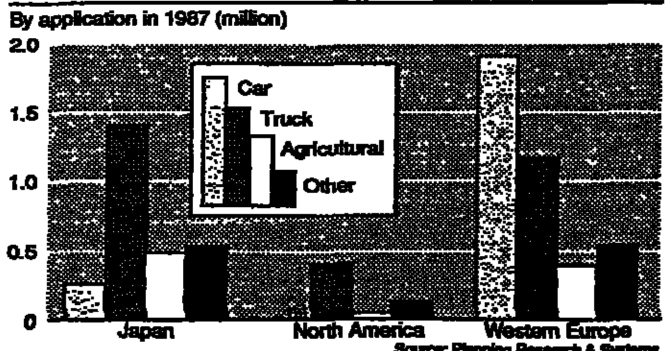
Michael Smith

PRS Consultancy Group

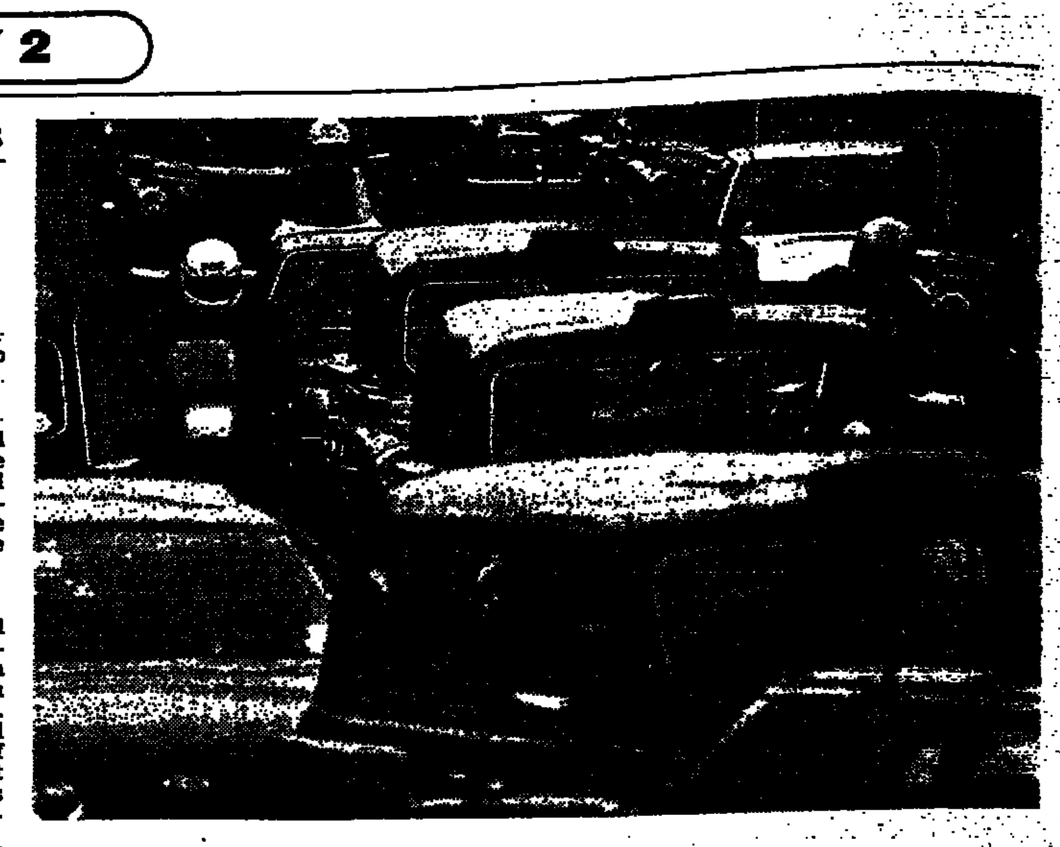
World diesel production in 1988



Diesel engine production



Source: Planning Research & Systems



Noise and exhaust are problems facing the car sector

MARINE ENGINES

A more optimistic outlook

THE SHIPPING industry has been waiting impatiently since March for the resolution of a battle over the proposed sale of the loss-making marine diesel activities of Sulzer of Switzerland to MAN of West Germany.

The deal was stalled in August by the West German cartel office, which refused to allow it to go ahead, because of the potential impact on West Germany's domestic shipping industry, in which the two companies have a virtual duopoly of supply.

MAN has refused to accept the decision, and has appealed to the West German Economics Ministry, which has the power to overrule the cartel office. The ministry is not expected to do so, because its responsibilities extend only to the health of West German markets. But the battle has implications for the entire world shipping and shipbuilding industries.

Paradoxically, neither MAN nor Sulzer are world-scale manufacturers of large marine diesel engines. According to Mike Haigh, of the London consultants PRS, MAN last year produced less than 150 engines of more than 500hp at its German and Danish plants, while Sulzer produced just four such engines at its plant in France.

This compares with total production of 1,960 engines of 500hp or more throughout western Europe, 3,146 in Japan, and 184 in South Korea.

However, the importance of the two companies is much greater in terms of design, particularly of large engines for ocean-going ships   a sector in which they jointly dominate the world market. This is because most large engines produced in the main shipbuilding areas in western Europe, Japan and South Korea are built under licence from either MAN or Sulzer.

MAN, for example, includes among its licensees: Alsthom Atlantique, in France; Harland and Wolff, in the UK; and Helsinger Vaerft, in Denmark; Hitachi Zosen, Kawasaki Heavy Industries and Mitsui Engineering and Shipbuilding, in Japan; and Hyundai, in South Korea.

Sulzer's licensees include the major shipbuilders: Fincantieri, in Italy, and Astilleros Espanoles, in Spain; Ishikawajima-Harima Heavy Industries, Mitsubishi Heavy Industries, Nippon Kokan KK, and Sumitomo Heavy Industries, in Japan; Korea Heavy Industries, in South Korea; Taiwan Machinery Manufacturing, in Taiwan; and Shanghai Shipyard, in China.

No accurate figures exist for market share in terms of design, but industry estimates suggest that at least 60 per cent of large marine diesel engines are built to designs produced by either Sulzer or MAN. Mitsubishi is thought to be the second most important designer, with around 9 per cent of the market.

The MAN/Sulzer domination of the market for large marine diesels dates from the pre-eminence of European shipbuilding until the 1960s, before the emergence of first Japan and then South Korea as shipbuilding superpowers

The MAN/Sulzer domination of the market for large marine diesels dates from the pre-eminence of European shipbuilding until the 1960s, before the emergence of first Japan and then South Korea as shipbuilding superpowers. It contrasts oddly with the distribution of world shipbuilding orders. Last year, 37.6 per cent of new orders were won by Japanese yards, 24 per cent by South Korean yards, and 16 per cent by West European yards.

Until recently, Japanese yards have not thought it worthwhile to commit the substantial research and development funds necessary to develop an indigenous competitor to the European-designed engines, especially in the falling market which engulfed shipping and shipbuilding after the 1973 oil shock and has persisted for 16 years. Last year, only 521 ships of 16.8m deadweight tonnes were completed, compared with 1,113 ships of 28m dwt as recently as 1982.

The outlook for the shipyards is beginning to change, however, partly because improvements in world trade have increased the profitability of existing ships, and partly because the increasing age of the world fleet means that a large number of ships will have to be built in the 1990s simply to replace tonnage which has to be retired.

As a result of this more optimistic outlook, there has been a move in Japan towards co-operative development of a new generation of large marine diesels which could provide a significant competitor to European domination in the next decade. A new company, called KK ADD, has been formed by Mitsui, Kawasaki, Hitachi and the Japan Development Bank to take over a research programme begun by a group of shipyards in 1983 under the banner of the High Reliability Marine Propulsion Plant Association.

One of the principal reasons put forward by MAN and Sulzer for the merger of their marine diesel activities is the increased strength the merged company would have in the fight for market-share, which is likely to take place in the 1990s if the Japanese consortium is successful in developing a viable competitor to the existing European designs. A decision from the West German Economics Ministry is expected shortly.

Meanwhile, Wartsila of Finland, the other major European producer, has faced problems in maintaining market-share because of the difficulties of the Finnish shipbuilding industry, which has found it hard to compete with the low-cost Asian producers and the subsidised yards of the European Community.

Wartsila has majority shareholdings in a number of non-Finnish engine-builders - including Wichmann of Norway, Echevarria of Spain and Nohab of Sweden - and has recently taken a 60 per cent stake in Stork-Werkspoor Diesel, of The Netherlands, and a 42 per cent holding in Duvant Crepelle, of France. As a result of these interests, production of marine diesel engines of more than 500hp last year amounted to more than 130 units.

All three European producers are also casting their eyes towards the shipbuilding nations of eastern Europe, including the Soviet Union, where economic and political liberalisation could have unpredictable consequences. "The low-cost shipyards in Poland, East Germany and elsewhere could emerge as serious competitors in world shipbuilding if they can guarantee quality," says Mike Haigh. "But they could just as easily collapse and disappear under the strains of operating in a market economy."

The future of shipbuilding in eastern Europe is still too uncertain for accurate prophesy, but a merged MAN-Sulzer company would be in a powerful position if shipbuilding demand were to increase dramatically.

MAN has licencees at the Lenin Shipyard, in Poland; Brodogradevna Industrija, in Split, Yugoslavia; and the Bryansk Engineering works, in the Soviet Union; while Sulzer has similar arrangements with the Koraboimpex Varna works, in the Soviet Union; VEB Dieselmotorenwerk, at Rostock, East Germany; Zaklady Przemyslu Metalowego, in Poznan, Poland; and Jugoturbina, in Karlovac, Yugoslavia.

Kevin Brown

GENERATING SETS

All change in the market

The UK industry has been looking to the Far East, to compensate for the fall in demand from the Middle East, says ALASTAIR GUILD

MANUFACTURERS of generating sets have had to adjust to a rapidly changing world market during the last five years.

In some regions demand has risen, in others it has fallen. Africa is the only continent where demand has returned to something like the levels of 1985, with sets now, as then, required largely to provide continuous power.

The UK industry, with annual exports worth just over £100m, has been looking, in particular, to the Far East to compensate for the tail off in demand from the Middle East.

Newly-industrialised countries, such as Malaysia, Indonesia and Thailand, which once required generating sets to provide a continuous power source, now need sets more for stand-by, rather than for continuous power, as back-up for their growing commercial and industrial sectors, fed principally from a national grid.

It is in this region that European manufacturers, some of them now with local offices or agents, face perhaps greatest competition from Japanese producers prepared substantially to undercut competitors just to get a market foothold.

The Japanese have a presence in Europe, but mainly at the smaller, petrol-driven end. There also continues to be a small but significant number of UK producers working on the industry's fringes, many of them assembling sets in a shed or garage, undercutting the reputable manufacturers but very often failing to meet national or international standards.

The well-established European manufacturers are confident about the future, provided standards are maintained and adhered to. The present national standard is BS5750 Part 1, generally thought to be among the highest in Europe, and well in line with ISO9000. There has been a concurrent trend towards greater technical sophistication, with demands for a more and more compact and cost-effective solution, especially in stand-by applications.

The Association of British Generating Set Manufacturers (ABGSM) recently joined forces with its counterparts in France and Italy to form Europegen, to help set common standards as the industry moves towards 1992.

The ABGSM, whose six full members have a combined turnover of £100m, and produce mostly diesel-driven and gas turbine sets in the range 10kVA to 5MW, is hoping to involve the Germans and Spanish by the end of the year.

The association has also commissioned a study, jointly with the Department of Trade and Industry, of future market potential in Europe, where 80 per cent of sets are required for stand-by applications. The report, not for publication, looks particularly at public-sector possibilities such as hospitals, telecommunications, energy, forestry and leisure.

Some British companies that make diesel engines for generating sets have sold to French generating-set manufacturers in the past. During winter months, when the electricity supply industry in France is unable to meet peak demand, utilities can require the private sector to supply power back to the grid. That has represented a substantial market for manufacturers such as Renault Industries and SDMO, though it is one that is thought largely to have been satisfied.

The changing pattern of electricity supply in the UK could increase demand for generating sets, particularly at the top end of the range, to provide prime power for localised, or remote applications.

The industry has also been looking closely at the potential for generating-sets in combined heat and power (CHP) applications, thought mostly to be in leisure or large shopping centres, and hotels. A CHP system can double the efficiency of a normal generating set in converting the energy in diesel oil into usable energy, and the mains then become the top-up

John Griffiths considers the accomplishments and challenges in the commercial vehicle and passenger-car sectors

Trucks' recovery is slowing down

AFTER SEVERAL years of buoyant sales and healthy profits, the good times appear to be drawing to an end for the makers of heavy trucks and the diesel engine producers who supply them.

In western Europe, most truck-makers are still riding a wave of record markets and earnings – but are well aware that its momentum is fading fast. The main question is not whether 1990 will see a fallback from the region's record half-millionsales of last year, but by how much.

In the US, the world's single largest heavy truck market, the downturn is already well under way – sales fell by over 30 per cent in the third quarter of this year, and some manufacturers are already instituting production cuts and lay-offs.

Only in Japan, almost a closed market for western truck and diesel makers (Volvo and Mercedes alone are making even token sales) and some developing countries are buoyant conditionsto be found.

*Inconveniently, the down*turn is coinciding with an upturn in the financial pressures being put on truck and diesel makers by increased development costs. These, in turn, are being driven not so much by marketplace rivalry as growing environmental pressures and the imposition of stricter exhaust emission controls.

While western Europe is only belatedly addressing the truck diesel pollution issue – until recently, legislation concerned itself only with the *emission of smoke as a "nui*sance" – much more draconian standards are to be applied in 1994 in the US. Indeed, some manufacturers argue that it may not be physically possible to meet them.

Even among the successful European-owned industry, which bought up several of the best-known US producers – like Freightliner (bought by Daimler-Benz), White (Volvo) and Mack (Renault) in the early 1980s – concern is being expressed aboutthe likely outcome.

According to Mr Giorgio Garuzzo, managing director of Fiat of Italy's commercial vehicles division, Iveco, more than one-third of the cost of designing a new heavy truck diesel is now incurred in meeting pollution control factors.

Mr Sten Langenius, president of Volvo Truck, suggests that, such is the magnitude of product development spending now required, "a consequence will be the restructuring of the truck and truck component industry world wide".

Inevitably, the development burden is falling most heavily on those truck-makers who have remained heavily vertically integrated. Mack Trucks, for example, still sorting out long-term product rationalisation with Renault, has traded at a loss throughout this year, as a result of the US market slump's coinciding with the cost of launching several new products.

While the larger, fitter corporations, like Daimler-Benz, the world's biggest heavy truck maker, can be expected both to weather the coming storm and continue to produce its big diesels in-house, the mounting pressures make it likely that second-rank truck-makers increasingly will source their engines from the specialist engine producers such as Caterpillar, Navistar (formerly International Harvester, and also one of North America's biggest heavy truck makers) and Cummins Engine.

Firm evidence that this can be a highly successful strategy is provided at one end of the scale by Paccar, the Seattle-headquartered maker of Peterbilt and Kenworth heavy trucks, which became North America's largest indigenous producer in the over-16 tonnes gross vehicle weight sector last year.

Paccar regards as one of its greatest strengths the fact that it buys in most if its mechanical components. The associated lack of overheads has helped to provide it with one of the most consistently profitable records in the *industry*.

At the other end of the scale, the small independent British truck-maker, ERF, has transformed its fortunes in recent years by moving away from being what its chairman, Mr Peter Foden, described as a "fruit salad" truck-maker. This entailed offering customers virtually any combination of bought-in engine,transmission and axle they wished. By standardising around Cummins engines, Eaton gearboxes and Rockwell axles, ERF has managed to combine much simpler assembly, and hence lower production costs, with some economies of scale in purchasing. For its part, Cummins inevitably has come to regard ERF as a considerably more valued customer.

Caterpillar, Cummins and other engine-makers can argue that, by specialising in engine production for supply to a broadspread of customers, their engines can benefit from a higher level of investment and research and development effort than might be the case of a truck-maker seeking to meet merely its own volume needs. The argument is similar to that used successfully by other key truck component makers, likeEaton Corporation in the case of transmissions and Rockwell (axles).

"It stands to reason that no single truck-maker can sanely argue that it has the best engines, all the time," according to a senior engineer with one West German truck manufacturer.

One example of such intensive development was unveiled in Frankfurt last month by Navistar of the US – what the company claims to be the world's first "smokeless" truck heavy diesel engine. The unit, which is still under development, will be fully capable of meeting even the draconian 1994 emission standards, according to Mr John Horne, vice president and general manager of Navistar's engine and foundry division.

The engine's key features include: a high-pressure electronic fuel-injection system; improved combustion chamber design for better fuel/air mixing; new component designs to minimise lubricating oil penetration into the combustion chamber. But potentially most important is a new type of catalytic converter, to reduce particulate emissions instead of the particulate "trap" – requiring accumulated particulates to be periodically burned off – which much of the industry is developing.

In order to meet the 1994 standards, the engine must also have external help, in the form of diesel fuel with a reduced sulphure content, in order to prevent "poisoning" of the catalyst. However, this should not be a problem as US federal authorities are making such fuel mandatory for diesels in on-highway use in 1994.

The new engines, designated the "International '94 SmokelessDiesel", will go into production in 1992, initially without the catalytic converter system. However, this will be introduced in 1994 – just in time for the tightening of standards.

Mack Trucks has been sorting out product rationalisation

Economy the driving force

VIRTUALLY the only attraction of the diesel in light vehicles is its economy. And this can be seen in the sharp contrast between western Europe's car and light commercial vehicles markets.

Last year, 15 per cent of the 13m new cars sold in the region were powered by diesels. Yet in the light commercial vehicle sector, where operating cost rather than dynamic performance is the overwhelming priority, nearly six out of 10 vans, pick-ups and similar vehicles sold were diesel-powered, with market penetration hovering around 70 per cent in Italy, France and Spain.

The link between economic factors and the diesel has led to extreme sales volatility throughout the 1980s, sales having received a notable boost from the post-1979 oil price escalation. Also indicative of the economic factors that drive the diesel market is the fact that sales of diesel cars are virtually non-existent in north America, where petrol prices remain far below world levels.

The link between economic factors and the diesel has led to extreme sales volatility throughout the 1980s

More recently, however, environmental issues have come to the fore, with widely varying impacts on individual countries.

In West Germany, where there has been intense concern about all aspects of pollution, uncertainty over the framing andseverity of intended European Community legislation on petrol car exhaust emissions led to a temporary surge in diesel car sales. They leaped from just over 10 per cent of sales in 1983 to peak at more than 27 per cent in 1987 – only to have plunged in the past two years, as a result of the petrol-engine emission uncertainties being resolved in favour of catalytic converters, and the relative "cleanliness" of the diesel being brought increasingly into question.

Market trends have differed sharply in other individual countries. For example, diesel sales are continuing to rise steadily, although from a small base in the UK, where not until this year have exhaust emissions become a matter of widely-debated public concern.

Ironically, the diesel is currently going through a severe bout of adverse publicity, despite its ability already to meet the emissions standards being introduced over the next three years for petrol cars – at least, in terms of the severe pollutants like oxides of nitrogen, which give rise to "acid rain", and the hydrocarbons which help create photochemical smog. Despite the diesel's tendency to be smokier and noisier than a petrol engine, it also produces only about one-tenth the volume of carbon dioxide, the now-notorious cause of the "greenhouse" effect.

Yet a still-to-be-proved assertion by some environmentalist groups that particulate emissions from diesels are carcinogenic, and tougher standards, soon to be applied to reduce such emissions, make it likely that car diesel sales in Western Europe will go into a slight decline over the next couple of years.

In spite of this, major manufacturers and some market analysts remain optimistic about the mid- to long-term prospects for car diesel sales' recovering to at least the levels achieved in the mid-1980s, even in the absence of "abnormal" factors such as a repeat of the oil crises which boosted diesel sales so sharply in the past.

A study by Knibb, Gormezano and Partners concludes, for example, that "in spite of the general trend caused by the particulates issue, our forecasts reflect an optimistic view of diesel penetration in the car sector as a whole ... based on the belief that, in time, the diesel will regain environmental acceptance in most markets, and that the general tightening up of European emissions will eventually work to the advantage of diesel."

The study predicts that, by the late 1990s in western Europe's 10 principal markets, diesel car sales will at least regain the 18 per cent level reached during the *mid-1980s after dipping to around 13 per* cent over the next two to three years.

It expects the light-commercials sector in these markets to remain virtually unaffected by the particulates debate, and diesel van and pick-up sales by then to account for around 65 *per cent of the total, compared* with around 57 per centduring the current year.

Forecasts like this presume that such diesels will be able to meet the tighter EC exhaust emission standards. These have yet to be approved in their final form, but are expected to stop short of requiring the fitting of particulate "traps", a complex and costly system for capturing the particulates and burning them *en masse* at regular intervals – requiring temperatures higher than those ordinarily reached within the vehicle's exhaust system.

Another important economic factor impinging on the diesel's future is the single EC market planned for post-1992. Currently, diesel fuel prices vary enormously from country to country – from less than half the price of petrol in Italy, to only slightly cheaper in the UK.

The EC's intention to harmonise fuel prices, through aregime of similar value added and excise taxes, may also significantly affect the pattern of demand. Keeping road transport costs as low as possible within the single market is expected to be a priority – hence, diesel fuel prices can be expected to harmonise at a relatively low level.

This could mean an upsurge in diesel sales in countries like the UK – where diesel cars currently account for only 5 per cent of the total – but a decline in countries like Italy.

The downside, however, is that no government is likely to tolerate the reduced fuel tax take that would arise from a population explosion of diesel cars, which are at least 25 per cent more economical than their petrol-powered counterparts.

The likelihood, therefore, Knibb, Gormezano suggests, is that they would seek to compensate with increases in other areas, such as annual licensing fees. The overall picture, however, may yet be improved by further technological development of the diesel.

Electronic engine management, variable-flow turbocharging and more sophisticated fuel injection and combustion chambersystems all hold out the promise of substantial improvements in pollution control, fuel economy and on-road performance – the last currently accepted as being the single biggest disincentive for the majority of drivers.

No government is likely to tolerate the reduced fuel tax take that could arise from a population explosion of diesel cars

Performance increases of 10 per cent on current diesel models and fuel consumption improvements of at least 5 per cent are expected to be achieved with relative ease, although they may add up to 20 per cent on current unit costs. The performance deficit is in some cases already being sharply reduced.

At the end of September, for example, Citroën, part of the Peugeot Group which is the world's single largest diesel engine maker, unveiled a new diesel for its XM executive car which, in turbocharged form, propels the XM to a top speed of 120mph and provides acceleration from standstill to 60mph in around 12 seconds.

Citroën claims a diesel engine "world first" for the 2.1litre unit, in its having three valves per cylinder, not two. The extra valve is claimed to increase both power and torque while reducing exhaust emission levels.

A quiet time on the land

MICHAEL HAIGH considers the supply of engines in the agricultural and construction sectors, with their contrasting outlooks

THE MAIN off-highway sectors, agricultural and construction equipment, both experienced disastrous slumps at the start of the 1980s, which led to significant mergers and regroupings in the industry.

However, their subsequent experience has been very different. Booming levels of construction activity in the developed world have made the late 1980s a buoyant period for this sector, which takes almost 750,000 diesels a year.

In the agricultural sector, the slump seems likely to continue. After many years' decline, volumes are flat, with free-world demand for tractors (excluding compacts) stuck around the 600,000-unit level for the last three years.

Despite plant closures and mergers, most notably that of Case and IH, agricultural equipment markets remain highly competitive, and prospects look bleak, particularly for the smaller companies.

Engine supply for the major manufacturers is almost all captive – both Deere and Ford New Holland produce their own engines; Case IH uses the IH engines, plus the Case/Cummins ranges; MF fits its Perkins subsidiary's units in all tractors; and Fiat uses engines from Iveco, its commercial vehicle group.

Recently, the industry has been in a quiet period, in terms of major engine developments, but evolutionary progress has continued to be made in engine performance. For example, Case IH, in West Germany, recently ran one of its latest combines powered by an NCE (C Series) engine alongside a three-year-old unit, and found that the new machine recorded a fuel consumption 6 litres per hour lower than the older one.

The main change on the horizon is the expected tightening of emissions regulations. The shape and timing of these developments is unclear, and will depend on how severe the final regulations are in the vehicle sector. However, the major manufacturers are expected to achieve the new goals without major problems. Of the five majors, MF and Case IH are likely to have the easiest passage, because they already have access to the latest generation of vehicle-based engines – MF, through Perkins Phaser/1000 series, and Case IH through the Case/Cummins NCE (B and C Series) engines.

For the second-tier manufacturers, new legislation could be the straw that breaks several camels' backs. Companies such as Fendt and Holder, in West Germany, have hung on through the 1980s, relying on their strength in niched domestic markets; but, with outside engine suppliers who are not in the forefront of vehicle environmental developments, they could well disappear before the 1990s are far advanced.

Renault may stay in business, simply because the overall group is controlled by the French Government, which will not want to see the country's only significant manufacturer go. On the other hand, problems elsewhere in this predominantly automotive group may push the Government into allowing the closure or disposal of this fringe activity.

Deutz is much more deeply committed to the agricultural sector;but, even in combination with Mercedes-Benz, its prospects are not good. Also, declining volumes or complete closure at Fendt or Renault would trouble the company, as they are the only significant customers for its water-cooled engine subsidiary, MWM.

In terms of new products, the major recent event has been the new 7100 and 5100 tractor ranges from Case IH. These were launched in north America in 1989, and are due on the European markets in the first half of 1990. All the C Series engines for the larger (7100) tractors are sourced from the Case/Cummins joint-venture facility, at Rocky Mount in the US. Those for the 5100s come from Neuss, in West Germany, which means that the B Series is now being produced in three locations – Rocky Mount, Darlington and Neuss.

One interesting feature separates the agricultural sector from both the other off-highway and the on-highway sectors – its relative immunity to Japanese penetration.

Although the Japanese dominate the under-30hp mini-tractors and other small equipment, they have made virtually no progress with larger machines. This is largely attributable to the problems of establishing effective product-distribution and servicing in the ultra-conservative farming sector.

In the construction equipment sector, large areas are dominated by OEMs (original equipment manufcturers) with captive engine supply. Thus Caterpillar and Komatsu, the two giants of the industry, make their own engines. Nevertheless, there are opportunities for outside suppliers, even with these leaders. In recent years, Perkins has added Caterpillar backhoe loaders to its long-established supply of engines for Cat's FLTs, despite the launch of new smaller Cat engines. Komatsu has also selected Perkins, to power the excavators it builds at Caterpillar's old plant, at Birtley in the UK.

Further opportunities for supply to Japanese plants in Europe may occur, as Komatsu has recently taken a major stake in Hanomag, of West Germany, and Furukawa has absorbed parts of Dresser's European operations in Germany and France. These moves follow the earlier tie-up between Hitachi and Fiat, which has seen the establishment of a new plant to build Japanese-design excavators in Milan.

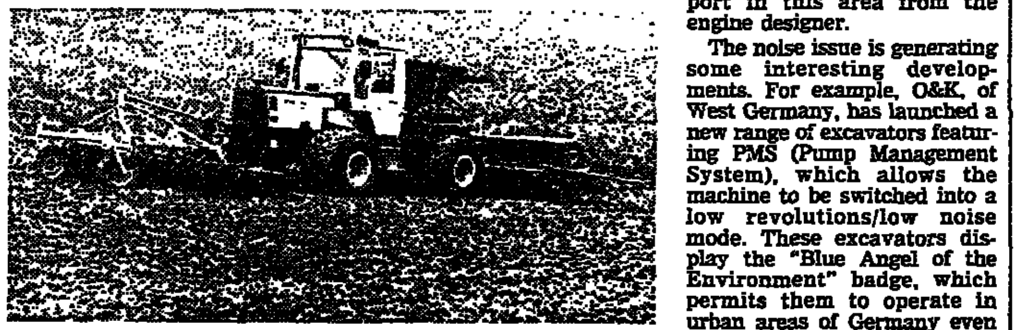
The smaller end of the market has seen something of a swing from air- to water-cooled units, particularly as mini-excavators, largely developed by the Japanese, and skid-steer loaders have at last gained acceptance as useful tools for smaller projects and confined sights. Generally, the Japanese engines have come from the agricultural sector.

This swing has been paralleled by developments in Europe, most notably the launch of Lister-Petter's new Alpha range and of Deutz's 1011 series, both of which went into production in 1988. The Alpha series consists of 2- to 4-cylinder engines in both water and air cooled versions, which have already gained acceptance with West German OEMs.

Deutz's new engines feature oil-cooling of the cylinders and air-cooling of the heads. This year's Bauma exhibition featured several west German OEMs, displaying equipment fitted with the new 1011. Such new engines represent a move away from single-cylinder air-cooled units with their rough, heavy and noisy image.

Noise remains one of the main concerns of the industry, particularly in Europe as EC regulations have tightened. Here, engine manufacturers face a difficult decision as to how far to go with the engine, which is the principal noise source in most types of equipment. Manufacturers of basic generating sets will often expect the engine manufacturer to bear the full burden on noise protection. On the other hand, OEMs producing equipment such as compressors often have a design which encapsulates the engine quite well, thus needing far less support in this area from the engine designer.

The noise issue is generating some interesting developments. For example, O&K, of West Germany, has launched a new range of excavators featuring PMS (Pump Management System), which allows the machine to be switched into a low revolutions/low noise mode. These excavators display the "Blue Angel of the Environment" badge, which permits them to operate in urban areas of Germany even at night.



The agricultural sector is experiencing a fallow period

Devaluation looks essential

COUNTRY PROFILE: BRAZIL

The country's diesel industry has been living through a golden age, says JOHN BARHAM. But can it last? The economic outlook is always cloudy, and executives avoid commenting on their industry's outlook

GOOD NEWS has been hard to come by in Brazil for a long time. The diesel engine industry, though, has been living through a golden age of rapid growth and impressive profits.

"The Brazilian market is big and growing bigger, and is close to world class competitiveness," says Mr Jack Andrews, president of Cummins' Brazilian operation.

The leading American and European engine companies have manufacturing operations in Brazil, though Japanese companies are conspicuous by their absence.

Those companies with factories in Brazil have price, technology and quality levels close to those of their parent companies. But profits tend to be higher.

Cummins has reported 25 per cent real sales growth over the past year and has a handsome 7 per cent profit margin – roughly twice its US parent company's profit levels. The company has invested $100m over the past five years – equivalent to one-tenth of its world wide capital spending. High profitability meant the expansion could be financed mainly out of cashflow.

A determined export drive, direct and indirect government subsidies and a highly efficient local components sector account for Brazil's success. High interest rates have bolstered corporate earnings, because the profitable private sector is a net investor on the lucrative money market, now paying 6 per cent real interest per month.

Between 1985 and 1989, Brazilian diesel engine production increased by 47 per cent, to 292,000 units, worth $2.03bn. Sales and output are projected to rise a further 50 per cent by 1994. Direct and indirect exports currently account for about 30-to-50 per cent of total output.

"Both suppliers and the diesel engine industry had to export or stagnate in the early and mid-1980s when the local market dropped," said Mr Andrews. "Although exporting hurt, it made us become competitive to break into the world market. Now we're reaping the benefits."

A strong presence in the local and export markets reduces business risks in the notoriously volatile Brazilian market. Inflation, bursts of rapid growth followed by stagnation, unpredictable government policies and often strict price controls, have made Brazil the world's least predictable economy. Businesses have virtually given up long-term planning. A Sao Paulo investment banker commented that "long term means up to the end of the month".

Highly efficient and low-cost components, produced almost entirely by efficient Brazilian-owned companies, are a significant factor in the multinational-dominated sector's export successes. A 1988 report by Long-Term Credit Bank of Japan said that the Brazilian casting industry operated at possibly the lowest cost in the world, while delivering very high-quality products, although design capabilities were insufficient.

Castings are a major component of diesel engines. Brazil's leading component manufacturers are considered to be among the most efficient in the world. They develop technologies locally, and have become increasingly involved in component design for their clients. Low raw materials and labour costs enables them to deliver products that are as cheap as they are well made.

An American company report stated: "Brazil has become a fantastic source for high-quality, low-cost engine parts. This is a big source of our corporate cost reduction in resourcing away from Japan, West Germany and inefficient US suppliers."

But the future looks less certain. A new president will take office in March, following elections on December 17. An overvalued currency and a gradual reduction in government industrial and export subsidies are eroding Brazil's much-vaunted export competitiveness.

After a decade of growth and investment, the industry expects a pause in expansion next year. Furthermore, the prospect of a recession in export markets and further jolts in the volatile domestic market are adding to the uncertainty.

Electricity prices, a major input in the component industry, are set to rise. Worse, there is a risk that supplies could collapse within two years in Brazil's industrial heartland. The government has held electricity prices down, in the vain hope of controlling inflation, handing industrial consumers an important cost advantage. Befiex, an important government export subsidy, is to be phased out by the end of the year.

The Befiex scheme offered exporters cash rebates and duty-free imports, in exchange for meeting pre-established export targets. However, exporters say the end of the subsidies is less of a problem than the overvalued currency.

Brazil's new cruzado is reckoned to be 25-30 per cent overvalued, which has made exports too expensive. Thus companies think exports could being stabilising and local sales rise, pushing annual sales over $3bn by 1994.

Mercedes Benz and Ford are the largest diesel engine manufacturers, with annual production of 70,000 units each, equivalent to about half of the total market.

Mercedes has begun a $300m investment programme to modernise its engine and truck models, with an improved medium-duty engine hitting the market this year. The company plans increased engine exports to the US to power Freightliner trucks.

At present, Ford produces 70,000 engines a year, but is increasing production capacity to 100,000 units to meet rising demand for trucks and agricultural tractors produced by its Ford New Holland (FNH) division. The company exports engines indirectly through its export of the Cargo truck. But exports are planned to end in 1990, because the overvalued currency has raised costs in dollar terms.

Caterpillar is the leading independent producer, with annual sales of over $500m. It dominates the industrial equipment segment, but its products are considered outdated. Caterpillar plans to invest $500m in Brazil, to update its product lines, modernise and consolidate manufacturing.

The Japanese have avoided Brazil so far, and their policy is unlikely to change. Brazilian officials have tried to woo Japanese investors, but have yet to overcome their reservations about chronic instability, investment controls and 40 per cent monthly inflation. Toyota is the only Japanese vehicle manufacturer in Brazil, where it makes trucks and jeeps.

Since the outlook in Brazil is always cloudy, at best, executives avoid commenting on their industry's outlook. However, they accept the need to bring electricity prices, interest rates and subsidies down to earth. But they insist that the next government – which could be led by a militantly left-wing or a centre-right president – must devalue the currency to avoid discouraging exports.

"We have competitive costs," says Mr Andrews. "All we need, to remain competitive, is a 15 per cent devaluation, or the industry will stagnate."

Producer profiles appear below and on pages 5 and 6

Peugeot becomes the bellwether of change

Mr Jean-Yves Helmer, the quietly-spoken director of Peugeot's automobile division, is confident about the prospects for the French car group's diesel engine sales, where it is the world's largest supplier.

Looking younger than his 43 years, this product of France's top engineering academy, gestures with his broad hands as he explains: "More people are beginning to realise that this is a product with a solution to several problems, that diesel is good for the environment and good for the preservation of natural resources."

Peugeot sold 21.3 per cent of the 1.8m diesel vehicles bought in Europe last year, powered by engines made at its three diesel plants in the northern French towns of Lille, Tremery and Douvrin. That was a 3.4 per cent improvement in its 1987 market share, leaving its nearest competitor, VAG, far behind, with 15.3 per cent, followed by Fiat with 13.2 per cent.

This makes Peugeot – which also sells diesels for cars made by other producers, like Ford – the most revealing bellwether of broader changes in the diesel market.

Mr Helmer, formerly director of Peugeot's huge car assembly plant at Poissy, took his present job a year ago, at a hard time in this notoriously volatile market. Sales were beginning to fall sharply in West Germany and Italy, under the twin influence of adverse tax rules and environmental fears – ill-founded, believes Mr Helmer – about the damage to human health caused by diesel pollution.

Those problems still exist, but a big new opportunity could, at the same time, be opened up by the European Community's decision to adopt tough US-style rules on car exhaust emissions. Meanwhile, a European Commission proposal to harmonise rates of diesel fuel tax could considerably ease Peugeot's access to what is now a deeply fragmented European market for diesel engines.

The cost of equipping petrol-driven cars, to comply with the new EC exhaust pollution rules, will considerably reduce the price advantage they now have over more expensive diesel cars, argues Mr Helmer. Most Peugeot engines already comply with EC rules on gas and particulates emissions, and so will not need modification. This means the average 15 per cent price gap, which now separates diesel and petrol cars, could fall as low as 5 per cent, estimates Mr Helmer.

The Commission proposal on diesel fuel – yet to be adopted by member states – would fix taxes within a uniform band of Ecu195-205 per 1,000 litres. This is a lot higher than Peugeot would like, and would drive up current diesel fuel prices in France, Belgium and the Netherlands, if accepted by the 12, believes Mr Helmer.

"Yet it will create reductions elsewhere, and, most important, help the market to become more stable and less fragmented. Market stability matters crucially, because diesel engines are costlier and take longer to develop than petrol engines.

Peugeot has always found that the diesel engine market is more vulnerable than petrol to political forces outside its control, something which occupies much of Mr Helmer's time in the form of visits to Brussels to try to explain to the Commission some of the advantages and special problems of diesel. This volatility can be an advantage, as was the case after the 1973 oil price shock, when consumers flocked to buy diesel cars attracted by the fact that they use on average 25 per cent less fuel and last 50 per cent longer than petrol-driven cars.

The big problem comes from different public perceptions about engine performance and pollution. "From the point of view of gas emissions, diesels produce the same as petrol cars fitted with a regulated catalyst. And particulates are not a problem in modern engines," says Mr Helmer.

He cites as an example the new Citroen XM Turbo Diesel – Citroen and Peugeot belong to the same group, PSA – capable of nearly 200kmh and the world's first diesel with three valves per cylinder.

It is no surprise that the pragmatic French are far more open to diesel's advantages than many of their European neighbours. Diesel cars' share of the total French car market nearly doubled over the past four years, from 15.7 per cent in 1986 to an expected 29.5 per cent this year, according to the French car makers' association, the Chambre Syndicale des Constructeurs d'Automobiles. That is bettered only by Belgium, where diesel takes 31 per cent of the market.

In environmentally-anxious West Germany, by contrast, diesel cars' market share has crashed from 27.1 per cent to 10.3 per cent since 1986 – with the biggest fall in the past two years – while the figure in Britain has climbed slowly from a tiny 4.1 per cent to 5.5 per cent.

This volatility and fragmentation might help to explain why this is one of the very few areas in the automotive market where the challenge from Japanese competition is negligible. Mr Helmer has no doubt, however, that Japanese corporate planners will be watching the impact of the new EC pollution rules and the forthcoming fuel tax changes with more than usual care.

William Dawkins

Buy-out at VM Motori will 'liberate energy'

AFTER 18 years in public ownership, as a subsidiary of the Finmeccanica sub-holding of Italy's IRI state holding corporation, VM Motori is returning to the private sector.

A management buy-out, organised by Milan merchant bank Euromobiliare, is expected to be completed by the end of the year.

Eight senior executives, led by chairman and managing director Mario Brighigna, will together have a stake of between 10 and 15 per cent in the company.

Considered a fair performer under IRI, Euromobiliare believes that VM Motori will do better when released from state-sector constraints and bureaucracy. "Belonging to the private sector will be a significant incentive and will liberate untapped energy within the company," says Mr Brighigna.

He joined the company as general manager in 1967 – 20 years after its foundation. Under his leadership, VM Motori diversified from industrial diesels into the automotive field. The company launched its HR engine in 1978, achieving a world first with the use of turbo-diesels in cars.

The HR series has allowed VM Motori to win important customers. The 3-cylinder 392SHT-R is fitted in Alfa Romeo's Alfa 33 model. Larger engines power the Alfa 75 and the more recent Alfa 164. Austin Rover chose the Italian company as supplier for its SD-1 saloon in 1981. But use of the HR series in 4-wheel drive vehicles has been even wider. Engines built by VM Motori power Ranger Rovers, Toyota's Land Cruiser, AMC's Jeep Wrangler, GMC's Jimmy S15 Sierra and the Uaz 469B.

With nearly 60 per cent of production being fitted to cars and 4-wheel drive vehicles, the automobile sector is of primary importance. And foreign sales are also crucial; direct exports account for 30 per cent of production and a further 30 per cent goes abroad indirectly. Mr Brighigna says that having no captive customers for engines provides a continuous stimulus for seeking improvements in cost and performance.

Modularity is one of the features of VM Motori's engines, which have common modules of cylinders, pistons, connecting-rods and heads. The HR series offers engines having from three- to 6-cylinder modules, giving commonality of about 70 per cent. This allows greater quality consistency in production, and easier maintenance and reduced stocks of spares for the user.

About 3 per cent of turnover is spent on research and development, to help the company stay with, or ahead of, competitors. Emission- and noise-reduction, and lower fuel consumption are priorities.

But, as visitors to the Paris air show learnt this summer, VM Motori's R&D group has been exploring the wider frontiers of aircraft propulsion. The VM-Avio project has given birth to a series of three turbo-charged compression ignition engines, suitable for powering light aircraft. The 4, 6 and 8-cylinder TPJ 1300HF series provide a power range from 210 to 430 horsepower.

Using Jet A-1 and JP-4 fuels, VM Motori's experimental diesel aero engines give a reduction of between 40 and 60 per cent on specific fuel consumption, compared with equivalent petrol types. In addition to offering substantial improvements in range and payload, the diesel aero engines have the advantage of significantly longer time between overhaul.

Mr Brighigna says that the results of testing show clearly that the company's aero project offers a feasible alternative to existing engines. However, until this project gets airborne commercially, VM Motori keeps down to earth with its automotive series and the diesel motors it sells to marine and industrial users.

The company's air and water-cooled engines are used in agricultural machinery and tractors, earthmoving equipment, air compressors, generating and pumping sets, and for marine propulsion. Claiming European leadership in the diesel sector, VM Motori says that its V130 550hp engine, used in generating and pumping sets and for large industrial and marine propulsion, is the world's most powerful air-cooled diesel.

Such technological performance is starting to be matched by financial results. Last year, VM Motori recorded a profit of L2.5bn (£1.2m) on L293bn sales, its third successive profitable year. In 1985, the company's L26bn losses were equivalent to about 13 per cent of turnover. Getting rid of loss-making subsidiaries Ducati Meccanica and Isotta Fraschini was fundamental to the turnaround.

Reflecting healthy demand for VM Motori's products in an increasingly competitive market, the workforce at the company's Cento factory mid-way between Bologna and Ferrara has increased.

"This year has gone well, and results are on budget," says Mr Brighigna. With senior debt of L30bn and subordinated debt of L35bn entering the balance sheet after the MBO, it is important that profits and cash flow should keep on track. Euromobiliare has carefully vetted VM Motori's five-year plans and finds them extremely interesting. That the future seems bright provides reason to expect stock-market flotation between 1992 and 1994.

David Lane

PERKINS has made impressive progress, rebuilding its volume base

Advancement in difficult markets

THE 1980s has been a traumatic decade for the leading manufacturers of diesel engines.

In the early years, they experienced a massive slump in all market sectors, creating huge amounts of excess capacity, much of which has persisted ever since.

Looking back, one of the most surprising things is that Perkins Engines, long a world leader in diesel engines, still exists as a distinct entity. When the slump hit, almost half its business was in the agricultural sector, dominated by supplies to its parent company Massey Ferguson (now Varity Corporation).

The collapse of MF's worldwide agricultural markets, coupled with the slump in the construction sector into which it had moved very heavily, brought the group to the brink of collapse. It survived only after one of the most cliff-hanging series of multi-bank rescues ever seen.

Perkins remained within MF, but its engine output slumped from a peak of 269,000 in 1976 to only 130,000 in 1985; factories were closed in the US and West Germany; the workforce was halved, and new investment halted.

Since this low point, Perkins has managed to modernise and extend its product range, invest in advanced manufacturing facilities (including fully automated engine test cells with AGVs to move engines) and make impressive progress with the rebuilding of its volume base.

The revamping of the product range has been achieved through a combination of measures

Last year, its own facilities produced almost 190,000 engines and worldwide sales from the UK, and its 15 overseas associates/licensees approached 450,000. Revenue was almost $700m, and operating profit topped $65m. Tony Gilroy, who joined Perkins in January as managing director, expects final UK volumes in 1989 to show a 50 per cent increase from 1986 levels.

The revamping of the product range has been achieved through a combination of in-house development, acquisitions and joint ventures. Perkins traditional 50-200+hp product range now features advanced new 4- and 6-cylinder (four/six litre) engines – Phaser/1000 Series – plus the 2-litre Prima engine, which was originally developed for car and light van use with Rover and has now been adapted for industrial and construction markets as the 500 Series.

The bottom end of the power range has been extended through a joint venture with ISM, of Japan. Perkins now uses ISM's 2-, 3- and 4-cylinder small water-cooled units from 5 to 45hp. At the top end, powers have been extended to 1,500hp through the acquisition of Vickers' Rolls-Royce diesel division with its 12.2 litre engines for heavy truck and industrial use and its larger V8s and V12s.

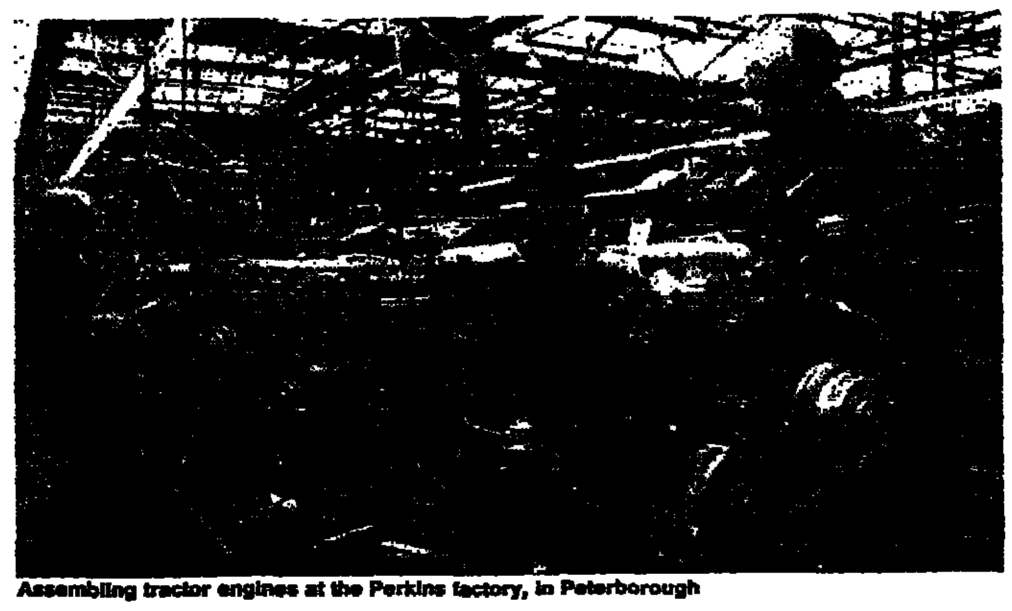
With these larger engines has come a major extension of Perkins business and know-how in the military sector. The company is now the British Army's power unit supplier for tanks, tank transporters and the Drops front-line ammunition delivery vehicles. Perkins has also acquired the Gardner company with its low-volume, but highly regarded, long-life, premium bus, truck and marine engines.

Strength elsewhere means less than 25 per cent of business will be in the agricultural sector

Restructuring is also under way in one of the company's traditional key markets – north America. Under a joint venture with DDC (Detroit Diesel Corporation, formerly the diesel engine operations of GM's DDA), Perkins is merging its US distribution into DDC's. This gives the company access to full distributor coverage in north America, lack of which has always limited its aspirations there. It may even provide the scope for Perkins/DDC to tackle the north American truck sector on a carefully niched basis.

The recovery of Perkins' core volume base in its important west European markets has been built on a number of successes with major original equipment manufacturers (OEMs), notably JCB and Caterpillar backhoe loaders and Rover cars/light vans in the UK.

More recently, progress has been made in the two most difficult major markets in the world – Japan and West Germany. Komatsu is fitting 1000 Series engines in its UK-built excavators, and Perkins' Japanese partner ISM is now taking the same range for use in its tractors in the Japanese domestic market. In West Germany, Perkins has recently won an order to supply 1000 Series engines for a new fork-lift truck range from Linde, Europe's largest FLT manufacturer.



Assembling tractor engines at the Perkins factory, in Peterborough

The extent of the progress made since the black days is shown by the fact that strong growth in the construction, industrial and vehicle sectors means that less than 25 per cent of its business will be in the agricultural sector this year.

Mr Gilroy attributes much of this success to the company's reorganisation into six business units: Peterborough products; Shrewsbury products and defence sales; Compact engines (5-45 hp); Gardner; Power Sales and Service – for distributor sales and the after-market; and Perkins Technology, which provides engineering services, both internally and to more than 150 outside companies.

He is convinced that this structure generates real accountability, and focuses each area's attention on providing a total service to customers with fast reaction to changing demands – thus meeting users' growing concern with overall operating costs, rather than simply initial selling price.

This strength, he believes, will keep Perkins ahead of the competition and allow it to win further significant new business accounts in all sectors, including the rapidly reshaping European vehicle markets.

Michael Haigh

LOMBARDINI has established a presence outside Italy, and has recently launched . . .

New runners in the water-cooled race

LOMBARDINI is Italy's largest producer of small diesel engines. At its Reggio Emilia plants, the company celebrated the production of its 3 millionth engine at the end of 1988, and has therefore built 1m units since 1980.

Manufacturing principally single and multi-cylinder engines of air-cooled design below 50kW, it produced over 131,000 units in 1988. Although output in 1989 will be of the same order, the trend to multi-cylinder engines should ensure turnover gains of between 10 and 15 per cent.

The company's tradition has been the Italian domestic engine market for specialist agricultural equipment in 2- and 4-wheel format. Between 55 and 60 per cent of its diesels are sold to the agricultural equipment sector.

In the last 10 years, however, its sales for generator sets, mini cars and off-highway equipment have grown. At the same time, it has established a significant presence in other European and north American country markets.

One diesel engine in six powers a generator set, with almost the same volume destined for construction equipment. Together, mini-cars and industrial applications account for the bulk of other sales.

According to PRS Consulting Group, the engine research consultants, 110,000 diesels were produced at Reggio Emilia. The remainder were built by the Italian subsidiary (Slanzi Motor SpA) and Hispanomotor, of Spain – Lombardini acquired full control of Hispanomotor this year.

Thirty-five per cent of output is exported directly, a third of which is sold outside western Europe, mainly to north America. Lombardini also markets gasoline engines produced by its Intermotor subsidiary: current output is about 90,000 units per annum.

PRS estimates that production of non-automotive diesel engines below 100hp in western Europe has decreased by 12 per cent since 1984, to some 2.5m units in 1988. Lombardini's output has declined mainly because of the depressed nature of its domestic market for small agricultural and lawn/garden equipment. Lower rates of equipment-replacement and growing gasoline penetration in some sectors have affected diesel sales.

Lombardini competes with other major European producers, Hatz and KHD, of West Germany; Lister-Petter, of the UK; and its rival in the domestic market, Ruggerini.

In the 1980s, competition has intensified through a growing Japanese presence in the west European market. The strategy of Japanese companies has been to compete principally in finished equipment, rather than loose engines. However, penetration, particularly in small-engine markets, has been growing. In recent years, penetration has risen rapidly, to the extent that the Japanese now claim 15 per cent of small diesel engine markets.

While the Japanese preference for water-cooled engines has not changed, Lombardini in particular had the foresight to undertake product development programmes for such units themselves. In late 1988, Lombardini introduced two new families of water-cooled engines: FOCS (fully overhead control system) and CHD.

The company believes both air- and water-cooled diesel engines are required, to compete in a wide range of sectors

These engines are of indirect injection design, and feature exclusive and innovative mechanical features. The FOCS engines include a new design concept with fuel injection equipment and valve-timing incorporated into the cylinder-head block. It is the first time that small engines have employed a unit injection system, which was developed by Lombardini themselves.

The CHD 3-cylinder engine is the first European-produced diesel engine combining water-cooling and such small cylinder displacement for the 25-35hp range. The unit has been selected by Fiat Agri for its 35-66 agricultural tractor.

Lombardini believes that both air- and water-cooled diesel engines are required, to compete effectively in a wide range of sectors. The above engine programme began in 1986 and was accelerated to compete with the emerging Japanese presence in Europe. By 1990, 10 per cent of Lombardini's engine output will be water-cooled.

Lombardini is also the first European engine manufacturer to produce a multi-cylinder water-cooled engine range for such a small output range. Other recent developments include the 6LD 435 model, purpose-built to meet noise legislation applicable to generator-set equipment.

In western Europe, the market for small engines is mature and depends for growth on increasing gross national product. In oil-producing countries, demand for small powered equipment declined sharply in the early 1980s, and has not recovered. In other, developing, countries there has been an increase of economic aid for small-scale mechanisation, which has improved small engine sales.

Engine usage in western Europe is well established, with little or no substitution occurring between competing power sources. Within the small diesel engine sector, demands for higher-powered units is continuing. This is driven by a move away from "walk behind" to "ride on" equipment, and in the construction equipment sector a requirement exists for more power take-offs.

Engine developments in recent years have concentrated on improving noise emissions, in order to meet EC legislation. Japanese manufacturers have capitalised on this opportunity. PRS estimates that Japanese penetration of engines below 50hp has more than doubled, from 7 per cent in 1984 to 15 per cent currently. Such technical advantage, combined with competitive pricing, has allowed the Japanese to move out from niche areas of the market.

The European industry under-estimated the changing demands of the end-user, and the European Community itself. Lister-Petter, of the UK, and Deutz, of France, have responded to the challenge. However, it is Lombardini that has sought to match the Japanese in sophistication, with innovative solutions.

The Japanese have achieved significant penetration, particularly in Switzerland, Austria, the UK and West Germany. Lombardini's backyard has been protected from Japanese competition until recently by trade barriers, while the Japanese have concentrated on off-highway, agricultural transportation, generator sets and marine sectors.

Lombardini is well placed to meet further competition from the Japanese and others. While it must defend its domestic position, the company also aims to improve sales in other parts of western Europe. A fully-owned subsidiary will begin operation shortly in the UK.

David Smith-Tilley

DIESEL ENGINES INDUSTRY 6

KHD

A tough road to recovery

A COMPANY in the West German engineering sector could certainly imagine for itself a better scenario than a 125th anniversary year in which it is just returning to the black, at a time when business in the industry is booming as result of surging home and foreign demand.

But Klöckner-Humboldt-Deutz, whose activities cover tractors and industrial plant, as well as diesel engines, is lucky to be even in that position.

It has been to the corporate abyss, peered fearfully in, and managed to draw back. In 1987, it turned in a net loss of DM285m, having made a DM25m profit the year before, and one of DM57m in 1985. Last year, however, it had narrowed the loss to DM98m, and is now looking forward to a small profit again in 1989.

The road to recovery has been tough. Jobs have been slashed and now total 18,400, compared with nearly 30,000 in 1985; capacity has been cut; and top management has been given a vigorous shakeout.

Cologne-based KHD's biggest division is engines and turbines, accounting for 53 per cent of last year's group sales of DM4.5bn. The problems, however, lay more in the other areas: tractors and agricultural machinery (36 per cent of sales in 1988) and industrial plant (11 per cent). It is in these two divisions that the job reductions were severest, in percentage terms.

KHD's history goes back to the earliest days of the modern engine. The group originated with the engine factory, the world's first, founded in 1864 by Nicolaus August Otto and Eugen Langen. Three years later, they presented their small atmospheric gas engine, at the World Exhibition, in Paris. This was the forerunner of the Otto (internal combustion) engine.

The group is the biggest producer of air-cooled diesels in the world, having produced 4m since it began regular production in 1944. It has turned out more than 5m air- and water-cooled diesel engines, as well as gas engines, since its formation in the last century

In 1876, Otto finished work on the four-stroke internal combustion engine. In the proud words of KHD's latest annual report, "the motorisation of the world had begun".

Today, the group is the biggest producer of air-cooled diesels in the world, having produced 4m since it began regular production of these in 1944. Altogether, it has turned out more than 5m air- and water-cooled diesel engines, as well as gas engines, since its formation in the last century.

It has also kept up its innovative thrust, latest developments including engines which are both fuel-efficient and environmentally-friendly.

In the first six months of this year, turnover of the division was 5 per cent higher, with the new-order inflow up by nearly 20 per cent. With the German construction industry, to which it is an important supplier, now experiencing a surge of activity, the group's Deutz Motor division has seen a sharp rise in business. Among its offerings is a new series of air/oil-cooled engines called the B/FL 1011. This has a low-exhaust emission level, makes less noise, and needs less maintenance than previous engines.

Another recent breakthrough is the DPFS particulate-filter system, which virtually eliminates soot: the device can be retrofitted or installed during the manufacture of diesel-using transport or mechanical equipment.

One aspect of the engine business now being stressed more heavily is service. KHD has invested DM15m in a new service centre in Cologne, with parts for all products made by Deutz and Deutz MWM, which produces large and medium-sized engines for ships, electric power plants, and public buildings. Deutz Service now has a turnover of DM640m a year, with DM1bn seen as attainable.

KHD, which suffered a heavy cash drain in its crisis period and has paid no dividend since 1986, obviously still has a long way to go in its climb back to prosperity. The performance of the engine division will obviously be crucial.

In 1989, the group expects Deutz Motor to raise its turnover in air-cooled engines to more than DM1.5bn from DM1.4bn. KHD is certainly putting great hopes in the well-received 1011 series, which ranges between 14 and 72hp. By 1992, it expects to be making 60,000 of these a year — around double the level planned for 1990.

Andrew Fisher

YANMAR

Troubled by the rising yen

ALTHOUGH the name is not widely known outside the industry, the Yanmar Diesel Engine Company is the world's largest producer of small diesel engines. It builds 350,000 units a year.

Founded by Magoluchi Yamaoka, in 1912, to produce kerosene-powered rice harvesters, the company has grown to be one of the largest private family-owned companies in Japan, with a turnover in 1988 of $3.5bn.

In 1962, the founder was succeeded by his son Yasuhito, who died the following year and was replaced by his brother Tadao Yamaoka, the current president.

Yanmar produced its first small horizontal water-cooled diesel engine in 1933, with an output of 5hp. There was immediately a huge demand in Japan for this engine for agricultural equipment, and a new factory was built at Amagasaki in 1936.

Two years later, the company began to export engines to the Philippines and India, and a second plant was established in Nagahama in 1942.

Complete renovation was needed after the war, and Yanmar started mass production of marine engines, which were to dominate the domestic market and eventually achieve a leading market position in western Europe and elsewhere.

From its origins as an engine manufacturer, Yanmar has spread into a range of components and powered equipment, including fibre-reinforced plastic boats, agricultural tractors, tillers and harvesters, excavators, wheel-loaders, fuel-injection equipment, transmissions and machine tools. Its engine range stretches from 3 to 5,000hp, and includes diesel, gasoline, natural gas and gas turbine units. It now has six production sites in Japan, and also manufactures engines in Brazil, Indonesia and Thailand.

Yanmar made its reputation in the production of small lightweight diesel engines for the agricultural, construction and marine markets. While the European tradition was to build air-cooled units for power outputs of below 10hp, Yanmar, together with other Japanese manufacturers, preferred water-cooling for reasons of efficiency and noise. However, in 1984, it moved to compete across the board by introducing what was claimed to be the world's lightest air-cooled diesel, particularly for the US and European markets.

In 1987, it broke new ground again, when it introduced a series of diesel outboard motors. These were completely new designs of weight-saving aluminium construction, and using Yanmar's own fuel-injection equipment to produce a high-speed, direct-injection unit with a very high power/weight ratio.

In 1987, the company broke new ground, when it introduced a series of diesel outboard motors. This is the 27hp model

In many respects, the diesel outboard has significant advantages over comparable gasoline units. It uses less than half the quantity of fuel and has good vibration and noise characteristics. Although down on maximum speed, the diesel has much more torque than a gasoline engine of similar power, and thus outperforms it in full-load conditions.

Over the past few years, Yanmar has been hit by the appreciation of the yen. From its peak in 1985, the currency rose from Y240 to the dollar to just Y120 in two years. This is equivalent to doubling the cost to the US customer, and has resulted in considerable problems.

Like other Japanese companies, Yanmar has redoubled its efforts to reduce manufacturing costs through investment in more advanced processes, and also to redesign its products to make them cheaper to produce. Considerable progress has been made to date, but more time is needed to complete the adjustment.

Yanmar sees the single market in the EC from 1992 as an opportunity for its products in Europe. The market is expected to offer stable growth in demand for high-quality engines with low noise and emissions, which Yanmar is confident it can provide. In order to do so, it has set up a European headquarters in Amsterdam, initially to deal with parts distribution and customer service.

In addition, the company is planning to complete the manufacturing-marketing circle by commencing engine production in western Europe, at a site yet to be chosen. This will include both air- and water-cooled units up to 100hp for agriculture, construction and marine applications.

Yanmar already has a joint venture — Ammann Yanmar — with a Swiss company, at St Dizier, in France. This produces mini-construction equipment, powered by engines imported from Japan. Yanmar's marketing strategy is to penetrate the finished-equipment market with the new L series air-cooled diesel. Water-cooled diesels will be modified to meet European industrial requirements.

In the US, Yanmar expects to see significant growth in what has, so far, been a very limited market for small diesels, and it plans to augment sales with local production. In the Far East, it already has production facilities in Thailand and Indonesia, and envisages importing locally produced diesel products into Japan.

New product plans concentrate on improving efficiency and emissions, by development of fuel-injection and combustion technology, and expertise within the company. Natural aspiration will be the preferred choice, and further development of high-speed direct-injection designs will help to achieve maximum efficiency.

In the longer term, Yanmar is involved in a Japanese government contract to develop a commercial ceramic gas turbine with multiple fuel capability.

Marine engines up to 3,000hp will be imported, to compete in the Rhine river-boat and fishing-boat markets, and ultimately for generator-set applications.

Michael Smith
PRS Consultancy Group

CUMMINS

Wall Street's patience tried

THE DOWNTURN in the US truck market has come at a horrible time for Cummins Engine, the big US independent diesel-maker.

After several years of slogging out a long-term and costly policy to keep the Japanese out of both the US loose-engine and truck market, the company was rewarded with a net loss in the third quarter this year of $39.7m.

In May, Mr Henry Schacht, the widely-respected chairman and chief executive said it was time the company started to make profits and share the gain with shareholders of its long-term investment programme.

Arguments rage about why Cummins has failed to get into the black and stay there

The proviso, said Mr Schacht, was that the US economy did not become "unglued". With the fall in the North American truck market, for which Cummins supplies more than a half the engines, some of the "unglueing" has already happened.

Arguments rage about the mix of reasons why Cummins has failed so far to get into the black and stay there. One reason is that it has made very heavy weather of modernising its production plants. Its inventory levels of 40 days' worth of stock last year was little changed from 1983, for example. It has probably narrowed the yawning gap in efficiency between its shopfloors and Japanese engine-makers, but it has not closed it.

A second reason is its costly research and development programme — $180m a year — and the high cost of retooling factories and moving more than 60 production lines.

A third reason is the fallout from its own price-reduction policy, which it decided to ease only in 1987. Three years before that, it had cut the sale prices of its engines by up to 40 per cent in order to defend its market share against threatened Japanese inroads. The consequence for its profits was immediate and long-lasting.

Cummins has been spectacularly successful in keeping the Japanese out, but the cost penalties have been huge. Wall Street appears to be tiring of the story, and now Sir Ron Brierley's Industrial Equity has a potentially hostile 15 per cent stake.

Over the past six years, Cummins has spent $850m on the development of new engines. Its manufacturing workforce has been cut by a third and its manufacturing floorspace by a quarter. Unit volume production of engines has tripled, resulting in a jump in productivity per man of 50 per cent. The cost of making engines has fallen 20 per cent.

This gruelling ride has produced the following performance balance sheet. On the upside, sales have doubled to $3.3bn over six years. Market shares in traditional markets have been defended and the Japanese threat kept at bay.

The downside is a loss, last year, of $63m following a weak profit of of $14m the previous year. The debt ration has climbed from 28 per cent to more than 43 per cent, which rises to over 50 per cent when off-balance sheet items are included.

Mr Schacht remains adamant that the policies Cummins has followed were the right ones, though he concedes that it could have done things better with its factory modernisation.

He points to the weak market position now of many US industries and manufacturers who backed off from the competitive challenge posed by the Japanese — a point that is undoubtedly true. He says that if Cummins had simply stuck to its older, bigger engines, and had not spent a lot of money getting into the market for smaller engines, its management would now be presiding over an organisation in terminal decline. That also is true.

The problem is that Cummins has not made money in a strong US market, and now the market is weakening. Japanese truck- and engine-makers have not gone away, and may be more interested in the US once their own surging domestic market has cooled off. And the patience of Wall Street seems to be wearing thin.

Nick Garnett

SECTION IV

FINANCIAL TIMES SURVEY

INTERNATIONAL Advertising

CONTENTS

Cover Illustration: Simon Farr
Graphics: Bob Hutchison

The world's advertising agencies are entering a much more complex and competitive era. The days of agencies as stock market stars are over. As Alice Rawsthorn reports, the 1990s will be a decade of new challenges for the international advertising industry

Challenging traditions

"Advertising in its new dimension invades everything. It realises, or materialises, in all its obscenity; it monopolises public life in its exhibition. It is our only architecture today."
Jean Baudrillard "The Ecstasy of Communication".

ADVERTISING *has* invaded everything in the 1980s. It has been an era when advertising won its way on to stock markets, into business schools and even on to the intellectual agenda thanks to fashionable theorists like Jean Baudrillard.

As the decade comes to a close the international advertising industry is entering a much more competitive era. Advertising expenditure is still rising at a rapid rate but there are signs of a slowdown in the US and the UK.

The \$176bn (£115bn) industry is still experiencing buoyant growth elsewhere. Yet many European markets are still immature and the western agencies have, so far, had little success in Japan, by far the largest market in Asia.

At the same time the growth of other marketing disciplines – direct mail and sales promotion – in the US and the UK is challenging the role of the traditional agency.

The days of agencies as stock market stars are over. Saatchi & Saatchi, once a symbol of the UK industry's success, is plagued by problems and preyed upon by predators.

One indication of the industry's difficulties is that the Wall Street analysts who have followed its fortunes through the 1980s, are switching to other sectors. One has turned to gold mining, another to retailing and a third to fizzy drinks.

"In a few years the marketing sector will no longer exist," said Mr Greg Ostroff, advertising analyst with Goldman Sachs in New York: "After all there is really no reason why agencies should be public companies."

The leitmotif of the advertising industry's development in the 1980s was the creation of international networks. At the start of the decade global advertising was dominated by the giant US agencies. But in the mid-1980s the UK agencies made the most of the strong pound, the soaring stock market and the UK's liberal accountancy regulations to buy their way into international advertising.

Four of the world's top 10 agencies are now owned in the UK. Saatchi has its eponymous network and Backer Spielvogel Bates. WPP, which began the decade as a supermarket basket manufacturer, now owns J. Walter Thompson and Ogilvy & Mather.

But the days when UK agencies could count on the stock market for support are over. WPP's \$865m bid for Ogilvy this spring was probably the last of the ambitious UK acquisitions. The weak pound and the sluggish state of the stock market has made it more difficult to finance overseas deals.

The tide has now turned and the UK agencies have become takeover targets. Boase Massimi Pollitt fended off a hostile bid from Boulet Dru Dupuy Petit of France this summer by falling into the friendly hands of Omnicom of the US. WCRS has ceded control of its advertising activities to Eurocom, another French group, to concentrate on media buying.

One of the most interesting aspects of the industry in the 1990s might be Japan's emergence on the international scene. Dentsu, already the world's largest agency thanks to its dominance of the Japanese market, recently announced its intention to establish an international presence by acquisition. If it succeeds, other Japanese agencies, such as Hakuhodo and Asatsu, may follow.

In the meantime the new international networks of the 1980s are concentrating on consolidation. Even Mr Martin Sorrell, chief executive of the very acquisitive WPP, sees the early 1990s as a time to "make sure the businesses we already own are running really well."

Ostensibly the new networks have entered a buoyant market. International advertising expenditure has grown by over 10 per cent a year since the mid-1980s. Mr Sorrell expects continued growth of 10 per cent into the 1990s. But the agencies are threatened by a slowdown in the US and UK.

The rate of growth in the \$76bn US market peaked in 1984 and has been sluggish ever since. The burden of borrowings left by the leveraged bids of the 1980s has forced some companies to cut costs. The pressure on corporate profits has prompted others to switch budgets to short term tactics, like sales promotion.

Mr Philip Geier, president of Interpublic, the giant US group which owns McCann-Erickson and Lintas, is convinced advertising will revive: "There are already signs that the trend towards sales promotion is slowing," he said. But in the short term the US agencies face the prospect of a sluggish economy next year.

The same scenario is now being replicated in the \$12bn UK market. The impact of high interest rates on corporate profits and consumer spending has prompted many companies to cut budgets.

"At the moment the industry is talking itself into a recession," said Mr Jeremy Sinclair, deputy chairman of Saatchi. "The market has not fallen, it has simply slowed down. But that means we have to be very careful about costs."

The effect of a slowdown in advertising – a highly leveraged industry with high fixed costs – tends to be more severe than in other sectors. Many UK agencies are already under pressure. Some have resorted to redundancies.

The outlook in other countries is more optimistic. Elsewhere in Europe, expenditure is still rising rapidly. In some countries, such as Spain and Portugal, this is a reflection of economic growth. In others, like West Germany, it has been fuelled by the creation of new advertising opportunities through TV deregulation.

Even eastern Europe is opening up. A number of western agencies have opened offices in Hungary and the Soviet Union. The eastern European market is already worth \$1bn a year and could be worth as much as \$10bn by the mid-1990s.

Asia is probably the fastest growing market of all. But Japan, which accounts for 75 per cent of the \$37bn Asian market, is still dominated by Dentsu. Western agencies have intensified their efforts to break into Japan, but the idiosyncracies of the advertising system and Dentsu's dominance of the media, means they have made little progress.

If internationalism dominated the industry's development in the 1980s, the leitmotif for the 1990s seems set to be its diversification into different disciplines.

Many of the larger agencies have already moved into other areas of marketing such as sales promotion and public relations. So far they have tended to deliver these disciplines separately through independent subsidiaries. One of the challenges for the 1990s will be to combine all these disciplines – as the Japanese agencies do – into an integrated service.

Some agencies have already made progress. Ogilvy has developed a system of "orchestration" whereby clients work with one account director who services their account across different disciplines.

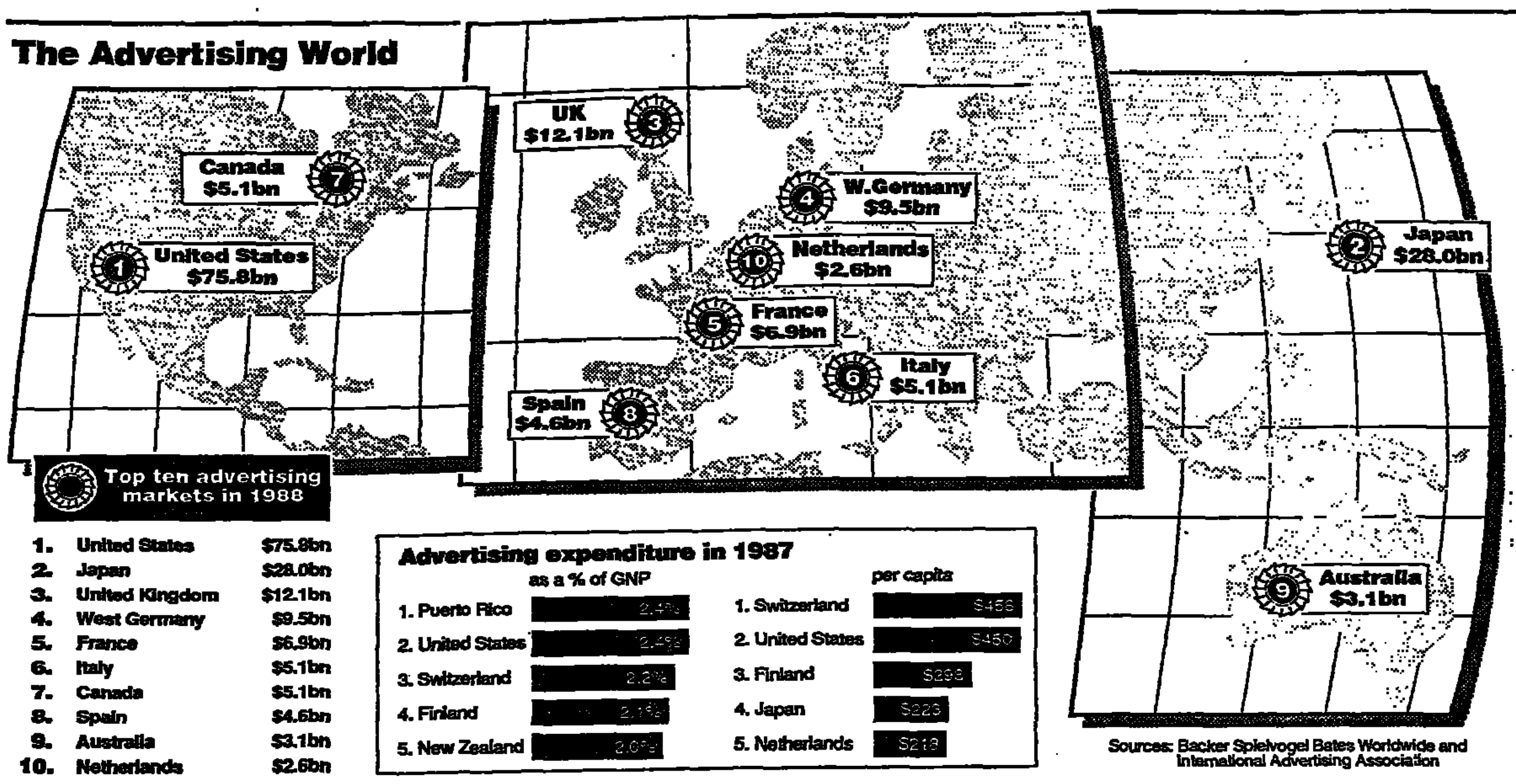
But integration is fraught with problems. Many leading companies have not structured their marketing departments to work across different national markets, let alone across different disciplines.

"Different clients have very different needs," said Mr Alex Kroll, chairman of Young & Rubicam, the US marketing group: "In future we will have to be much more flexible."

The need for flexibility will be exacerbated by the trend away from mass marketing, the agencies' traditional area of expertise. This is most marked in the US where the fragmentation of consumer markets and decline of the mass media has prompted big advertisers, like Procter & Gamble, to restructure to accommodate niche marketing.

All this paints a picture of advertising as an increasingly complex and competitive industry. The 1990s seems set to be a decade when the traditional tenets of the advertising industry will be challenged again and again.

The Advertising World



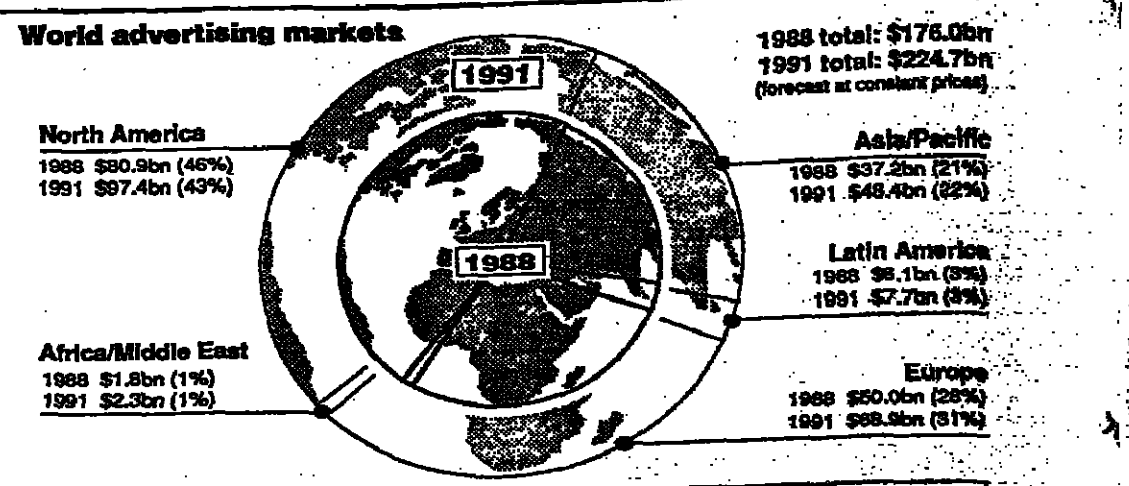
Top ten advertising markets in 1988

1.	United States	$75.8bn
2.	Japan	$28.0bn
3.	United Kingdom	$12.1bn
4.	West Germany	$9.5bn
5.	France	$6.9bn
6.	Italy	$5.1bn
7.	Canada	$5.1bn
8.	Spain	$4.6bn
9.	Australia	$3.1bn
10.	Netherlands	$2.6bn

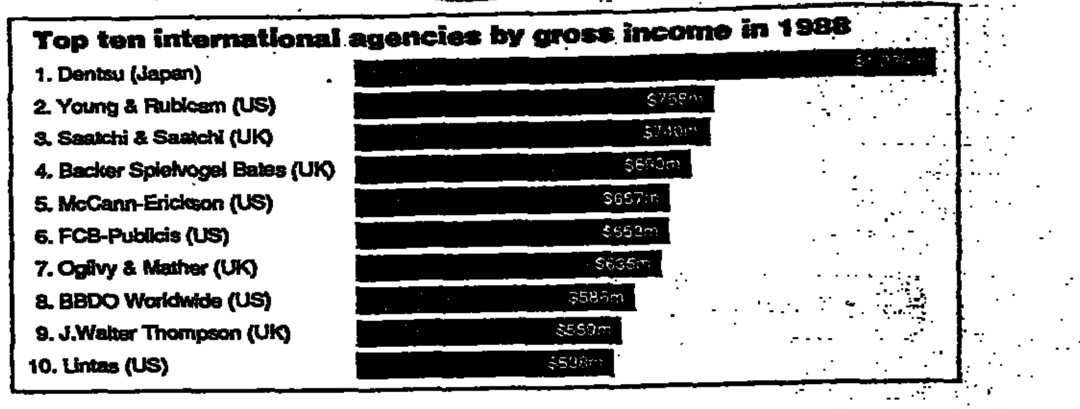
Advertising expenditure in 1987

as a % of GNP		per capita	
1. Puerto Rico	2.4%	1. Switzerland	$456
2. United States	2.4%	2. United States	$450
3. Switzerland	2.2%	3. Finland	$393
4. Finland	2.1%	4. Japan	$223
5. New Zealand	2.0%	5. Netherlands	$219

World advertising markets



Top ten international agencies by gross income in 1988



Sources: Backer Spielvogel Bates Worldwide and International Advertising Association

Internationalism the watchword for the new cadre of global marketing groups

INTERNATIONALISM has been the *cri de coeur* of advertising in the 1980s. It has been the catalyst for the wave of acquisitions and associations which has swept across the industry during the decade.

The reasons for all this activity are easy to see. In recent years the interests of the large companies that commission advertising campaigns have become increasingly internationalised.

The restructuring of European industry in the approach towards the Single Market in 1992, outward investment from Japan and inward investment into the US has created a new generation of industrial groups which need to execute advertising campaigns across several countries.

At the same time the pressure on corporate profits has accelerated the trend for companies to exploit economies of scale by manufacturing for more than one national market. Developments in communications technology and the erosion of differences in national tastes have offered an opportunity for companies to market their products on an international scale.

In theory, this all sounds so simple. The reports and accounts of the world's agencies are now littered with references to the gurus of globalisation like Professor Theodore Levitt. The chairmen of the publicly quoted agencies have sold deal after deal to the London and New York stock markets on promises of a brave international future.

In practise, things have not been quite so simple. Many of the biggest companies have not yet structured their marketing departments to operate on an international basis. Some of the swiftly assembled international advertising networks look impressive but their standards vary from country to country.

Yet a higher proportion of advertising expenditure is now channelled through a smaller number of agencies. The UK's Saatchi & Saatchi estimates that the five largest international agencies accounted for 17 per cent of expenditure in 1987, against 9 per cent in 1977.

The industry is now dominated by a new cadre of global marketing groups which face the challenge of competing in the increasingly complex marketing environment of the 1990s.

1. WPP GROUP
Gross income (1988): $2bn*
Billings (1988): $13.5bn*
Headquarters: London.

Thanks to the acquisition of Ogilvy & Mather this *spring, the WPP Group* has edged ahead of Saatchi in gross income to become the world's biggest marketing group. *So far WPP* has been rather more resilient to the slowdown in the US and the UK than its competitors. But even Mr Martin Sorrell found it difficult to win investors' support for the $864m Ogilvy bid. WPP's days of deal-making are over — in the short term at least. The group, which is burdened by hefty borrowings, now faces the challenge of restructuring its interests and maintaining momentum in an increasingly competitive climate.

*including Ogilvy & Mather.

2. SAATCHI & SAATCHI
Gross income (1988): $2bn
Billings (1988): $13.5bn
Headquarters: London.

After two decades of spectacular success Saatchi *has plunged into problems* this year. Its two advertising networks — the eponymous Saatchi agency and BSB — have been hit by budget cuts and delayed campaigns in their main markets of the US and the UK. The Saatchi group has been haunted by bid speculation with everyone from Southeastern Asset Management, an obscure Tennessee investment trust, to Mr Silvio Berlusconi, the Italian trash TV king, being bandied about as likely bidders. This autumn Saatchi brought in Mr Robert Louis-Dreyfus, as chief executive, to get to grips with its problems.

3. INTERPUBLIC
Gross income (1988): $1.3bn
Billings (1988): $8.4bn
Headquarters: New York.

After years of living in the shadow of the dynamic UK marketing groups, such as Saatchi and WPP, the giant US groups, like the powerful Interpublic network, have returned to the ascendant. Interpublic has been slowly, but surely expanding its two advertising networks — McCann-Erickson and Lintas — over the past year or so. It also increased its minority holding in the Lowe Group of the UK when Lowe took full control of Marschalk in the US. Interpublic is now concentrating on augmenting its activities outside traditional advertising. This summer it entered the fray for Saatchi by offering to buy one of its smaller subsidiaries.

4. OMNICOM
Gross income (1988): $986m
Billings (1988): $7.1bn
Headquarters: New York.

Omnicom has emerged as a dull, but worthy force in the international advertising industry since its creation by the merger between BBDO, Doyle Dane Bernbach and Needham Harper three years ago. The workaday business of integrating the businesses is now over. This summer Omnicom cast itself as a white knight for Bosse Massimi Pollitt, the UK advertising agency which was battling against BDDP of France. BMP offers an opportunity for Omnicom to strengthen its presence in London. But its network outside the US is still noticeably weaker than those of its chief competitors and it has yet to diversify into other marketing disciplines.

5. EUROCOM
Gross income (1988): $500m
Billings (1988): $3.5bn
Headquarters: Paris.

French agencies have moved into the international arena this year as they tussle to see which will be the first to become a global force. So far Eurocom has been more dynamic than its compatriots like Boulet Dru Dupuy Petit — which staged an unsuccessful bid for Bosse Massimi Pollitt in the UK — and Roux Seguela Cayzac & Goudard. Eurocom has used Havas Conseil, its Paris agency, as a base from which to build HDM, its joint venture with Young & Rubicam of the US and Dentsu of Japan, and to win control of the WCRS Group's international advertising interests.

Alice Rawsthorn

Patrick Harverson *on the global economic background*

The threat of overheating

THE WORLD economy has had a good year. Yet, the engine of global economic growth has been showing signs of overheating, and attempts to cool the pace of expansion are threatening to throw some economies sharply into reverse, thereby creating an uncertain climate for the international advertising industry.

Overall, the picture of world economic prospects remains relatively bright, clouded only by concern that the stubborn strength of the dollar, rising inflation, and turbulence in financial markets, could lead the global economy into recession. So far these fears have proven unfounded. A tightening of monetary policy worldwide, aided by an easing of *world commodity prices*, appears to have halted inflation, but not at the expense of growth.

The current consensus among economic forecasters is that the world's industrialised economies will grow at an average 2.5 per cent next year. Although this would represent a significant slowdown from the 4.3 per cent achieved in 1988, and the respectable 3.3 per cent expected this year, it would remain a respectable rate of growth.

However, the figures and forecasts hide marked differences in performance and prospects which mean that the rate of advertising growth now varies greatly from country to country. In simple terms, the US and UK economies are slowing as their respective governments apply the monetary brakes in an attempt to ease inflationary pressures and knock chunks off large trade deficits. Of the two, the UK economy is in worse shape and is already teetering on the edge of recession.

The Japanese and West German economies are heading for better times, and should enjoy growth well above the average. However, the spectre of inflation still hangs over all the industrialised economies, and *the efficiency* with which governments tackle it will determine which economies struggle and which break free from the shackles of rising prices.

The darkest cloud on the advertising industry's horizon is the slowdown in the US economy

The darkest cloud on the advertising industry's horizon is the slowdown in the US economy. The US advertising agencies have suffered sluggish growth since the mid-1980s. The threat of an economic slump in the world's largest advertising market augurs ill for an industry already weakened by several years of poor performance.

During the summer the threat of an economic slump was being taken seriously in the US. Since then the tightening of monetary policy has helped slow the pace of economic activity without setting off recession alarm bells.

Forecasters are now predicting that US gross national product (GNP) will grow about 1.75 per cent next year, compared with an estimated 2.5 per cent this year.

What do these forecasts of economic activity mean for the advertising industry? The key lies in how corporate profitability, consumer spending habits, business confidence and share prices react to the slowdown in *economic growth.*

In the US, there are already signs that corporate earnings have suffered. Weak cash *flows, steep borrowing costs* and falling consumer demand have eaten into company revenues and squeezed profit margins.

Confidence among the business sector has also taken a knock. Recent surveys have *shown that US business* managers are increasingly pessimistic about the outlook for sales and growth. The volatility of financial markets has not helped, and the fall in earnings and confidence has obvious implications for the advertising business.

The recent strength of the dollar has created problems of its own. Exporters struggle as *their goods become more* expensive, and imports continue to flood in. Subsequently, there has been little correction in the huge trade deficit.

A further worry is the weakening in domestic demand. Like Britain, the rising cost of credit in the *US has* led to a fall in consumer spending. Durable goods and cars have been particularly hard hit. Even more worrying, some economists have been suggesting that the drop in demand could signal the end of what has been an eight year cycle of buoyant consumer expenditure.

On the positive side, the strength of the dollar has been a reflection of international investor confidence in the US economy and in Mr Alan Greenspan, the chairman of the Federal Reserve, and his deft handling of monetary policy.

The Fed initially raised interest rates to cool down an overheating and inflation-threatened economy, and it has since eased monetary policy to prevent the economy from grinding to an unnecessary *halt. This* pragmatic approach to policy has won praise, and further easing, including a lowering of interest rates, can be expected.

In the UK, the outlook is bleaker. The UK agencies, which have been struggling against a slowdown in advertising expenditure since the spring, are now bracing themselves for a difficult year in 1990.

The problems in the UK economy have been similar to those in the US. Excessive consumer demand, and, initially at least in the UK, a strong currency, combined to create a deteriorating trade balance and stubborn inflation. The difference has been in the effectiveness of policy. While the Fed's touch on the monetary brakes *has been light, the Treasury's* handling of the economy has proved less assured.

The result has been a sharp drop in consumer demand, a sudden slump in the housing market, the first signs of a squeeze on company profits, and little indication yet of a meaningful reversal of inflationary trends.

Although this year has been dominated by attempts to rein in consumer demand and indebtedness, one of the biggest hurdles facing the economy next year will be the large deficit in the corporate sector.

British companies have borrowed a great deal for expansion in recent years. To reduce the burden of current high borrowing costs and move out of deficit companies will have to cut investment plans, stocks and employment. Spending on advertising could also become a victim of the belt-tightening.

There is little sign yet that the Treasury will, like the Fed, ease monetary policy. Indeed interest rates are likely to stay high throughout 1990 so long as inflation remains at its current level.

In Japan and West Germany, the economic picture is much brighter. GNP growth in Japan this year has been up to its *usual high level and is forecast* to reach 5 per cent or more by the end of the year.

Next year there will only be a *marginal contraction* in economic activity. Consumer spending will remain strong on the back of rising incomes. Investment has been and will continue to be buoyant. Export growth, aided by the weakness of the yen against the dollar, will remain healthy in 1990. On economic grounds alone, Japan is likely to offer the best opportunities for growth to the advertising industry.

West Germany should lead most of Continental Europe through another good year in 1990. Rising consumer expenditure should replace slowing investment demand as the main locomotive of growth in the leading industries, so long as inflation does not raise its ugly head. Again tight monetary policy will be relied upon to restrain price rises and to sustain a favourable climate for the West German advertising agencies.

UNITED STATES

Recession begins to bite

The American industry is in the doldrums, writes Alice Rawsthorn

"I HAVE a system," muttered Mr Bob Coen. "Everything is put in a pile. The only question is which pile?" There are piles of paper everywhere in his office. Piles on the desk. Piles on the sofa. Piles on the floor.

For more than four decades Mr Coen, as chief economist of McCann-Erickson, one of the two agencies in the vast Interpublic network, has pored over the piles of paper in his office to forecast the fortunes of the US advertising industry. And in recent years his forecasts have been far from optimistic.

The US advertising industry *is in the doldrums. Advertising* expenditure raced ahead in the early 1980s, fuelled by healthy corporate profits, the introduction of new products like personal computers and the impact of deregulation on sectors such as airlines and telecommunications.

The rate of advertising growth reached a peak in 1984, but the industry's fortunes have faltered ever since. From 1985 onwards, the increases in expenditure have been restricted to single digits. Mr Coen expects the US market to grow by just 6.4 per cent to $125bn (£80bn) this year, well below the increase in US gross national product.

The impact on the domestic industry has been dramatic. Advertising executives, who were once notorious for their long lunches and extravagant expenses, have entered a new era of austerity. Profits have come under intense pressure. Agencies have been forced to cut costs and shed staff.

One by one the bastions of US advertising have fallen into the clutches of overseas predators as the ambitious UK agencies have exploited the weakness of their American counterparts. Ted Bates has been bought by Saatchi & Saatchi. J Walter Thompson and Ogilvy & Mather are now owned by the WPP Group.

Even Madison Avenue is no longer the same. The new climate of cost cutting has prompted many agencies to move away from the traditional centre of American advertising to less expensive offices in other areas of Manhattan. Saatchi has gone downtown on the banks of the Hudson. Ogilvy is moving to the west side.

"When the recession first began a *lot of agencies simply* did not know what was happening," said Ms Emma Hill, advertising analyst at Wertheim Schroder in New York. "At first they thought it was a short term slowdown. It took a long time for reality to set in."

The critical question for the US agencies is how long the slowdown in growth will continue? Over the next few years it will become clear whether it is a short-term response to changes in the economic and corporate climate. Or whether it represents a longer term change in the attitude of North American companies to marketing as a management discipline.

In spite of this picture of gloom and doom, the US advertising industry is still the largest, and probably the most powerful in the world. Almost half of the $176bn invested in advertising world-wide last year was spent in the US. There are more than 2,500 agencies across the country, employing more than 60,000 people.

One by one the bastions of US advertising have fallen into the clutches of overseas predators, notably the ambitious British

One of the chief contributors to the slowdown in growth has been the wave of mergers and acquisitions that has swept across the US industrial landscape. Many leading US advertisers have fallen victim to leveraged buy-outs or takeover bids.

The direct result of all this corporate activity has been to encourage companies to restructure and to cut costs, often to service the heavy burden of debt left by their bids and buy-outs. The indirect result has been to prompt other companies to trim overheads in order to improve profitability thereby fending off *potential predators.*

When the giant US industrial groups have looked around for economies advertising has been one of the first areas to be cut. Traditional brands have been streamlined and new product development has slowed down. This cost cutting has been combined with a trend towards using different marketing techniques — such as sales promotion and price cutting — to achieve short term increases in sales.

The trend away from traditional advertising towards other disciplines has been accelerated by the combination of a rapid rise in media inflation and the decline of network TV audiences, which means that mass market media campaigns are not only more expensive, but tend to be less effective.

Procter & Gamble, one of the largest and most influential US advertisers, acts as a neat illustration. It spent an estimated £829m on media last year, compared with £923m in the peak year of 1985.

"The inescapable conclusion is that dollars which were once spent on media advertising are now being put into sales promotion and direct marketing," said Mr John O'Toole, president of the Association of American Advertising Agencies.

The agencies also operate in an increasingly complex marketplace. Consumer tastes have become more diffuse and sophisticated in the 1980s creating a need for "niche", rather than mass marketing. This problem has been exacerbated by the fragmentation of the traditional mass media. The growth of cable TV, for example, has eroded the power of the networks. As a result it has become more difficult — and often more expensive — for agencies to plan and implement campaigns.

One solution for the larger agencies has been to concentrate on international expansion. Interpublic, which owns McCann and Lintas, and Young & Rubicam now make most of their money outside the US.

Another solution has been for agencies to diversify beyond their traditional base in media advertising into the other faster growing — and often more profitable — marketing disciplines.

Some agencies are restructuring their operations to offer a more cohesive marketing service. Two years ago Foote Cone & Belding introduced a new business, the Integrated Communications Group, in New York which operates as a general marketing consultancy by planning and implementing coherent programmes of advertising, direct marketing and sales promotion.

"We thought there would be a growing number of companies which wanted to find one resource to provide all the different disciplines," said Mr Jon Adams, president of ICG. "And we thought they would want their advertising, direct marketing and sales promotion to be strategised and executed together."

ICG has doubled in size since its inception and now has billings of $130m. FCB is considering how to integrate the different disciplines at its other main agencies in Chicago, Los Angeles and San Francisco. Several other agencies — including O&M, Y&R and Leo Burnett — are also developing ways of offering an integrated service alongside their traditional advertising activities.

There are some pockets of growth within US advertising. But expansion tends to be concentrated in emerging economic centres, such as Seattle and Minneapolis, not in the traditional centres of New York and Chicago.

One encouraging omen for the industry is that the pace of corporate activity has slowed down. Many big companies still bear heavy debts as the legacy of their leveraged deals. Although Mr Jim Patterson, chief executive officer of J Walter Thompson, is convinced that advertisers now realise that they can not afford to continue to short-term promotional tactics, to the detriment of long-term brand building through advertising.

Yet the immediate outlook for the industry is grim. The US economy is almost certain to slow down next year, thereby intensifying the pressure on advertising expenditure. Mr Coen is confident that, eventually, corporate profits will recover and new product development will begin again. He expects advertising expenditure to outstrip gross national product by 1992.

In the meantime the US advertising agencies are in for a tough time. "Gee," he quipped, "we have become the sort of industry that takes two hours for lunch and drinks five rather than seven Martinis a day."

US agencies by billings in 1988

1	Young & Rubicam	$2,792m
2	BBDO	$2,414m
3	Saatchi & Saatchi	$2,210m
4	Backer Spielvogel Bates	$1,954m
5	DDB Needham	$1,929m

Source: Advertising Age

A COMMON criticism of global advertising is that – in seeking to appeal to so many different people in different countries – it almost always ends up being bland.

The latest campaign from Benetton, the Italian fashion group, is anything but bland. Benetton unveiled its new ads this autumn to howls of protest from everyone from US civil rights groups, to right-wing extremists in France.

The cause of all this outrage is the latest instalment of the "United Colours of Benetton" campaign which featured a black woman breast feeding a white baby and another of a black and a white hand locked together in hand-cuffs.

The campaign has won awards in France; been attacked in the US; and banned from the Underground in London. And Benetton has fired Eldorado, the French agency behind it all.

JAPAN

Foreign targets beckon

The Japanese industry is vast and full of idiosyncracies, reports *Alice Rawsthorn*

TO THE unenlightened western eye, Japanese advertising is mystifying. The subway stations of Tokyo are plastered with posters of businessmen with boulders falling on their heads or tethered to their chairs. The television screens blare out commercials crammed with abstract imagery.

Mystifying though its output may be, the Japanese advertising industry is booming. Japan's Y4,417bn (£20bn) advertising market is the second largest in the world, after the US. So far the idiosyncracies of the advertising system have ensured that the Japanese agencies have continued to dominate it.

Yet competition from western agencies is now intensifying and the Japanese agencies are becoming more ambitious about expanding overseas. The agencies now face the challenge of coming to terms with the internationalisation of the advertising industry.

Advertising gained momentum in Japan in the 1970s thanks to the growth of the economy and the trend towards westernisation. But the industry suffered a slowdown after the oil price rises of the late 1970s and early 1980s when corporations turned their attention to exports.

Since the mid-1980s the political squabbles over Japan's trade surplus has encouraged corporations to concentrate on the domestic market. The political programme of deregulation has also created a new generation of advertisers, such as financial service companies. At the same time the combination of a strong currency and the apparently insatiable Japanese appetite for luxury imported goods, has enticed foreign companies into Japan.

Advertising expenditure has soared. It rose by 8 per cent to Y3,945bn in 1987 and by 12 per cent to Y4,417bn in 1988. Advertising now accounts for 1.2 per cent of Japan's gross national product, compared with 1 per cent in the early 1980s.

The advertising industry has expanded dramatically. There are now 4,000 agencies in Japan, according to the Japanese Advertising Agencies Association, against 3,500 five years ago. The number of people employed in the industry increased by a sixth to 84,500 last year alone.

But the balance of power in Japanese advertising has stayed the same. Dentsu, the world's largest advertising agency, still dominates the market with gross income of Y1,229bn, or 24 per cent of all expenditure. Hakuhodo, its closest competitor, has 10 per cent with income of Y512bn.

Dentsu and Hakuhodo have managed to maintain their powerful positions, not only against increased domestic competition, but also against the influx of western agencies coming into Japan.

The secret of their success lies in the structure of the Japanese media buying system. The sheer scale of their media spending power is an obvious advantage in securing the best space in newspapers and magazines. Dentsu alone accounts for a fifth of all Japanese newspaper advertising.

They exert even greater influence in the television industry. The Y1,316bn Japanese TV market is divided between "spot" commercials – which, in theory at least, are bought on an open market – and "programme" advertising whereby agencies are involved in the production and sponsorship of programmes.

Dentsu not only has shareholdings in several TV stations, but is involved with half of all the primetime programmes on Japan's five national TV channels. Hakuhodo is involved with another fifth. The large Japanese advertisers have little alternative but to deal with Dentsu or Hakuhodo if they want decent exposure for their campaigns.

The western agencies face the parallel problem of the idiosyncracies of the Japanese advertising system. The Japanese industry, like the advertising industry in most other countries, is modelled on the US system, but there are significant differences.

Japanese agencies, for example, tend to offer a wide range of marketing services, such as sponsorship and sales promotion, as well as advertising. There is also no concept of "client conflict" in Japan. Agencies can, and do, work with several clients.

Moreover the creative content of Japanese advertising is often mystifying to westerners. The Japanese favour a subtle approach, a soft sell, which could not be more different from the hard sell of the American agencies.

Most western agencies have chosen to enter Japan through joint ventures. The Interpublic agencies, McCann-Erickson and Lintas, have joined forces with Hakuhodo. Grey is with Daiko and Saatchi & Saatchi with Yomiko.

Conversely the Japanese agencies have found it difficult to expand into other countries. Even the mighty Dentsu derives just 10 per cent of its billings outside Japan. Hakuhodo is still losing money on its small international network.

There are signs of the Japanese adopting a more ambitious approach to international expansion. Dentsu recently established an overseas management team to orchestrate its overseas activities. Over the next few years it intends to establish a significant international presence, probably by acquisition.

If Dentsu is successful, other agencies may follow in its wake. The Japanese agencies will then have to make the leap into the wider world of international advertising.

Japanese agencies by gross income in 1988	
1. Dentsu	$1,229m
2. Hakuhodo	$522m
3. Dai-Ichi Kikaku	$142m
4. Daiko	$140m
5. Tokyu	$135m

Source: Advertising Age

UNITED KINGDOM

Little cause for seasonal cheer

Agencies face an intensely gloomy outlook, writes *Lisa O'Kelly*

THE atmosphere at the advertising agency Christmas parties in Soho and Covent Garden will be far from festive this year. The mood will be subdued, reflecting the uncertainty currently pervading the UK advertising industry.

Few in the industry will admit to being seriously concerned. "It may be conventional wisdom that, when the economy catches a cold, the adverting industry gets pneumonia," said Mr Mike Waterson, director of research at the Advertising Association. "But that is not the case."

But the fact is that, after a decade and a half of uninterrupted growth, the advertising industry faces the threat of recession. As consumer spending has slowed down and the pressure on corporate profits has increased, advertising expenditure has been cut.

The rumours of redundancies that have been flying around the industry in recent months appear to have become a reality. Saatchi & Saatchi is thought to have made up to 30 people redundant. D'Arcy Masius Benton & Bowles laid off 26 staff last month.

The most startling manifestation of the industry's troubles is the way that the glittering success story of Saatchi has turned sour. Once a symbol of Britain's strength in world advertising, Saatchi, is now rumoured to be a takeover target for foreign groups.

At least some of the industry's gloom can be attributed to the uncertainty at Saatchi. Mr Brian Sturgess, an analyst with Barclays de Zoete Wedd, said: "The UK agencies have basked in Saatchi's reflected glory for so long that its problems are interpreted as symptomatic of the business as a whole."

According to the Advertising Association advertising expenditure grew by 17 per cent in real terms to £6.8bn last year. The AA expects real growth of 4 per cent this year – with expenditure of £7.6bn – and to 1 per cent next year. Analysts are even gloomier. Mr Sturgess expects zero growth in real terms for 1990.

The industry managed to escape the last recession of the early 1980s relatively unscathed largely because it was able to ride on the back of the growth of two lucrative new areas of advertising expenditure: financial services and technology. This time, though, there is no such new blood. Instead, one of the biggest advertising money-spinners of the decade, the Government privatisation programme, looks set to be cut in the face of fierce criticism of the water privatisation campaign.

Mr David Jones, managing director of Lowe Howard-Spink, said: "I see no reason to be optimistic for 1990. There is little growth from existing clients and very little new business around to compensate. The only agencies that can go into 1990 expecting a good year are those that have won new business during 1989." But in general agencies have won much less new business this year than in 1988.

Inevitably all the uncertainty has hit the stock market. Ms Sue Bailey, an analyst at Warburg Securities, said most advertising stock are currently trading at a 30 per cent discount.

The jittery atmosphere has been reflected in personnel shake-ups at most of the leading groups. It has also resulted in a crisis of creative confidence, with nervous clients demanding less adventurous creative strategies. Frustrated agencies, worried that their reputations may suffer, have been playing musical chairs with their creative directors.

In the past, the larger groups could rely on overseas acquisitions to massage profits. Those days are over. The pound is too weak and share prices too low for international deals to be viable. WPP's £556m acquisition of Ogilvy & Mather in May looks like the last of the big trans-Atlantic takeovers.

The tide is now turning and UK agencies are finding themselves the prey of the Americans and Europeans. Earlier this year, Boase Massimi Pollitt staved off a hostile bid from Boulet Dru Dupuy Petit of France only by falling into the friendlier clutches of Omnicom, the US group. Eurocom, another French concern, has won control of WCRS's advertising interests. Saatchi is being stalked by all manner of overseas predators.

Hard though it may be for the Soho creative directors to stomach, the one area of advertising to show promise this year has been media buying.

Media has long been regarded as the poor relation of the advertising industry. But several factors have combined to make an ability to compete in media buying on a world scale a priority for the big agency groups, including the spiralling cost of airtime and the concentration of media ownership.

Saatchi and WCRS have already emerged as powerful players in media buying. Those agencies that do not have footholds in media have been scrambling to find them.

Similarly, the agencies that are unable to provide a wider range of marketing services may find themselves left behind. Sales promotion, direct marketing and public relations are all taking a larger slice of marketing expenditure.

The WPP Group, which is involved in almost every area of marketing as well as traditional advertising, is more optimistic than most about the future. "I do not see any cause for panic," said Mr Martin Sorrell, WPP's chief executive.

Mr Sorrell, like the rest of the UK industry, finds consolation in the expectation that the present slowdown is likely to be short-lived. If Mr John Major, UK Chancellor of the Exchequer, succeeds in steering the economy back to growth in the approach to the next general election the ad market should recover towards the end of next year.

But, if inflation increases again after the election, the industry will find itself in the grip of yet another downturn and the advertising agencies that are neither willing nor able to diversify may face the sad truth that advertising is no longer the fashionable marketing tool it used to be.

UK agencies by billings in 1988	
1. Saatchi & Saatchi	£324m
2. J. Walter Thompson	£284m
3. BSB Dorland	£261m
4. Young & Rubicam	£181m
5. Ogilvy & Mather	£175m

Source: Campaign

INTERNATIONAL ADVERTISING 4

SAATCHI & SAATCHI

Sharp reversal in fortunes

TO SAY that 1989 has not been Saatchi & Saatchi's year, would be a considerable understatement. Whatever its past role in breaking the dominance of the US agency networks, Saatchi's grand strategy has come sadly, and publicly, unstuck in the past 12 months.

Although the bubble started to burst following the Ted Bates deal in 1986, the turning-point came officially in March at the company's *annual meeting, when Saatchi* warned that there was likely to be a pre-tax profits fall in 1988-89. It talked of substantially lower first half profits – in the event they were down from £20.2m to £63.1m – but emphasised that a much stronger *second half was in view.* While interest costs and the absence of exchange rate gains would drive the pre-tax figure down in the 12 month period, there were hopes that full year operating profits might be little changed.

Looking at the causes of this reversal in fortunes, Saatchi itself was inclined to cite the economic and political uncertainties in the US, hitting the communications/advertising side, and a margin squeeze in the consultancy arm.

Since then, however, the angst has continued apace. The consultancy businesses – long-rumoured, and long-denied, to be a disposal possibility – were officially signalled as being for sale in June. *Apart from a few minor deals,* however, no significant transaction has yet been announced, inevitably prompting rumours that the prices being sought are proving elusive. Estimates of the possible proceeds have been scaled down by some analysts to less than £200m.

Charles and Maurice Saatchi: traumatic 12 months

Fairly inevitably, too, bid speculation has swirled *around the group. Talk of both* management buyout bids and external predatory moves has been fuelled by the building of a stake of more than 10 per cent by Southeastern Asset Management, a small Tennessee-based investment group which has made astute investments in the agency sector before, and by the acquisition of a much smaller stake by Fininvest, the Milan-based holding company for Mr Silvio Berlusconi's media interests.

And, fighting back against the gloom, Saatchi has announced yet more management changes although this time they look arguably more significant. Mr Robert Louis-Dreyfus was brought in as chief executive in October, *from Dun & Bradstreet;* Mr Charles Scott, a colleague of Mr Louis-Dreyfus at D&B, became finance director. Meanwhile, the Saatchi brothers stepped down as joint chief executives, although Mr Maurice Saatchi remains as chairman.

This recent burst of bid speculation and management changes, however, has clouded what analysts view as the fundamental problems of the group. Broadly, Saatchi appears to have been a salutary tale in the dangers of aggressive acquisition programmes if subsequent management is less than tight.

As a result, in purely financial terms, a serious mismatch between revenues and costs has developed on the communications side. This, according to Saatchi, has resulted partly from the difficulties in making internal projections in the wake of the merger of certain agencies in the US.

Inevitably, steps taken to move the two back into balance have darkened the short-term profits picture, as further short-term expenses have flowed. In the first half, reorganisation and redundancy payments cost Saatchi almost £6m, with 500 jobs already lost. Costs of around double that figure were being predicted by analysts for the second half

Critics have suggested that these problems were then exasperated by difficulties on the consulting side. Here, the earnout agreement on Hay Group – a significant part of the consulting arm – has been blamed, rightly or wrongly, for distorting profit performance and, more crucially, investment trends. The suggestion has been made that, anxious to benefit fully from the earnout deal, profits may have maximised ahead of the ending of the payment period in late-1987, and investment in training, technology and the like deferred.

The ad spend deferrals in the current year, in the words of one analyst, "tipped things over the edge". The size of these deferrals has never been estimated to be large – perhaps £25m against first half revenues in communications of well over £300m. However, with a cost-base already askew, the damage at the margin becomes more critical.

Where that leaves the group is a moot point. When the sale of the consulting arm was first announced, the point was made that this might have left Saatchi broadly ungeared, able to concentrate energies on the communications businesses, and that if some fairly radical cost-cutting was implemented, the company might, indeed, be well-placed to resume an upward path.

As months have clocked by, the situation has clearly not become any rosier, and in spite of the recent introduction of new talent, the extent to which Saatchi has got to grips with its perceived management problems remains a question mark in many observers' minds.

In short, while Saatchi may still point to its previous and formidable record in creating the group, the task ahead in re-establishing it looks every bit as tough.

Nikki Tait

WPP

Conundrum for the City

"*IT COULD* be an interesting comparison," remarked one leading analyst reviewing the two "heavyweights" of Britain's advertising industry shortly after plans by Saatchi & Saatchi to put its management consultancy arm up for sale were first officially announced.

On the one side, ran the argument, would stand Saatchi, a potentially ungeared company (ex-consultancy) but heavily weighted to businesses in the slower-growing advertising area, and with a perceived lack of management controls.

On the other would come WPP. Mr Martin Sorrell's highly acquisitive group, went the thinking, would possess a better balance of interests, *tighter financial checks, but* have yet to prove that its hefty acquisition programme had genuine "industrial" rationale. It would also be handicapped by high debt levels following its most recent burst of deal-making.

In the event, the delays to the disposal of the Saatchi consulting interests have made the remarks premature. But the WPP side of the equation remains something of a conundrum for the City, as evidenced by the share price picture – which has done no more than oscillate rather wildly between 600p and 750p – over the past year. While analysts are predicting 1989 pre-tax profits of between £75m and £77m, and fairly impressive earnings growth well *in excess of 20* per cent, the "glamour stock" image of the bull market has faded somewhat.

The company's origins – and meteoric rise over the past four and half years – have been well-documented. They remain, however, highly relevant to an assessment of the group today. In a nutshell, the story began in 1985 with the

WPP's Martin Sorrell: heavily indebted after many acquisitions

arrival of Mr Martin Sorrell, an accountant by training and previously Saatchi's finance director, as a substantial shareholder in Wire and Plastic Products, a tiny Kent-based manufacturing company. An extensive acquisition programme *followed,* much of it making use of deferred profit-related payment structures and principally targeted at small/medium-sized companies in the marketing services field.

The first quantum leap came in mid-1987, with the acquisition of the New York-based JWT Group for $560m. What began as a hostile bid – the first in the sector – for a troubled but old-established advertising agency group, eventually ended in agreement.

That was then followed by a second big step earlier this year when WPP added the Ogilvy & Mather network for $862m, this time in an agreed deal. In between these two acquisitions, the stream of smaller deals continued. Since Ogilvy, however, the pace has ground to a near-halt.

No one could doubt WPP's determination in pursuing the Ogilvy deal – although the idea of blending the fairly conflict-free J. Walter Thompson and O&M networks was by no means new in the industry. WPP sounded out some institutional shareholders prior to the bid itself and, by all accounts, received relatively little encouragement, at least for a deal of that size so soon after JWT. In the event, WPP ploughed ahead without recourse to its equity investors, arranging a £214m issue of convertible preference shares and total loan facilities topping $800m.

But this background still leaves several question marks over the present and future. The first and most fundamental is whether the acquisition *programme has been justified* and to what extent the resulting band of interests can be sensibly melded together. The company's case has always been that two big competing agencies form an essential service to clients. This is partly because of client conflicts which eventually arise with a single network, and partly because of the different cultures which need to be on offer. At the time of the Ogilvy takeover, the different regional strengths were also stressed, with O&M bolstering WPP's presence in the relatively fast-growing European market.

The second question mark is exposure to advertising *itself,* where projected growth rates, although varying substantially between geographic regions, have been clouded by economic pressures generally. The result of embracing first JWT and then Ogilvy, means that just more than half WPP's revenues now come from this source. That would still compare favourably with, say, Saatchi minus its consultancy interests. Nevertheless, the deals over the past couple of years have changed the character of WPP from an investment perspective.

To this, should be added the financial considerations. The Ogilvy deal left WPP with net debt immediately after the transaction of around £360m. Gearing is a difficult subject, given the problem of goodwill write-offs and WPP's contentious decision to take in "brand valuations" in respect of certain subsidiaries' names. And, on the plus side, it should be said that the Ogilvy acquisition significantly diluted the importance of earnout deals within the context of the group as a whole.

But debt levels, perhaps more than anything else, has tended to worry the London *stock market recently, with* analysts talking of interest cover of a less-than-extensive three times. In the case of JWT, debt was paid down by the happy discovery of property transaction possibilities – in particular in Japan. The jury is still out on how Ogilvy will unfold.

Nikki Tait

YOUNG & RUBICAM

Enigma of Madison Avenue

BACK IN 1925 an ambitious, young advertising agency left its offices in Philadelphia to move to the sixth floor of a big building at 285 Madison Avenue in New York.

The agency was called Young & Rubicam and it had moved to Manhattan to handle an account for Jell-O, the jelly made by General Foods. Today Y&R is still based at 285 Madison Avenue, although it has bought the building and now occupies more than just the sixth floor. And it still does the advertisements for Jell-O.

Y&R is the largest US-owned advertising agency and the second largest agency in the world after Dentsu of Japan. It has interests in public relations, sales promotion, design and direct marketing, as well as advertising with world-wide billings of $5.5bn (£3.5bn) last year.

Yet Y&R is something of an enigma in the international advertising industry. In an era when the publicly quoted agencies – such as Saatchi & Saatchi, WPP, Omnicom and Interpublic – have hogged the headlines with dramatic deals and, sometimes, equally dramatic declines, Y&R has guarded its privacy as a private company.

In the mid-1980s when Saatchi and WPP were rarely out of the limelight, Y&R seemed somewhat staid and stodgy. But more recently, when the marketing services sector has slumped on the London and New York stock markets, it has looked enviably stable.

The Y&R of today is run from the same corner office on the sixth floor of 285 Madison Avenue where Ray Rubicam, one of the agency's founders *wrote his advertisements.* The office is now occupied by Mr Alex Kroll, who played professional football for the New York Titans – forerunners for the Jets – before joining Y&R, *initially in the creative department.*

The foundations for the latter-day Y&R were laid in the 1970s under Mr Edward Ney, one of Mr Kroll's predecessors as chairman. He developed the concept of the "whole egg" strategy whereby Y&R would offer a whole range of marketing services to complement advertising.

Y&R began in 1973 by buying Wunderman Worldwide in direct marketing. It then acquired Cato Johnson, a sales promotion company, and Burson-Marsteller, an international network of public relations consultancies. A few months ago it diversified into design by buying Landor Associates, the international consultancy based in San Francisco.

Originally Y&R had planned to go public to finance its expansion. But the US stock market slumped after the oil price rises of the early 1970s. Suddenly it seemed more advantageous to make acquisitions as a private concern. Y&R scrapped its plans for flotation.

Mr Kroll is convinced that private status is an enormous advantage today. "First, we can offer stability to our employees," he said. "Second, a public company has two clients – its advertisers and its shareholders – and sometimes their interests can clash. Our management spends 99.9 per cent of its time working for our real clients."

Last year Y&R strengthened its private status by effecting a legal change into a partnership of its 1,000 shareholders. Only active employees are allowed to hold shares. Even Ray Rubicam sold out when he left. He *then went on to make even* more money from real estate and banking in Arizona than he had from advertising.

At times the group's private status has been useful for less

Alex Kroll, chairman of Y&R

salubrious reasons. Over the years Y&R has been scarred by a series of scandals. This autumn alone it hit the headlines when Bette Midler, a singer, sued it for imitating her singing style in a commercial; when the rumpus over backing of Lord Einstein O'Neill & Partners' breakaway from WPP was resolved; and when it was indicted by a US grand jury on charges of conspiracy and racketeering.

The racketeering charges could have dealt devastating damage to a publicly quoted agency. Mr Kroll blanched when asked about their impact. "It is business as usual here," he said. "We have not lost any business, but we have put on some new business. That is all I can say."

Meanwhile Y&R's management is tackling the task of strengthening its individual businesses, while integrating *its different divisions into a* coherent marketing services group.

Y&R has already established its advertising agencies as a viable international network. Its chief challenge is to stave off the challenge of smaller agencies. Its main New York agency was recently restructured – into a more flexible format where people work in smaller groupings – to counter criticism that it was becoming bland and bureaucratic.

On the international scene, it has introduced a "creative leadership programme" whereby the creative directors of all its agencies gather together once a year to discuss the quality of their output.

But the chief challenge is to use its expertise in the different disciplines to provide an integrated marketing service. It has begun by developing a formula whereby a "lead" account director from one discipline maps out the marketing strategy for a client and then co-ordinates a coherent service from the other disciplines.

Mr Kroll estimated that more than 200 of Y&R's clients are already using the group's services in more than one discipline. Yet Y&R, like most of its competitors, still has a long way to go before it can claim to offer a truly integrated marketing service.

"Of all the marketing groups Y&R has the best pieces in place to provide an integrated service," said Mr Greg Ostroff, an advertising industry analyst with Goldman Sachs in New York. "Now it must prove that it can pull them together. That is its challenge for the future."

Alice Rawsthorn

DENTSU

Giant taking on the world

"Dentsu does more than any single corporation, anywhere in the world, to mould popular culture."

Karel van Wolferen "The Enigma of Japanese Power"

DENTSU is no ordinary advertising agency. It is one of the most powerful institutions in Japan. Its influence extends beyond the media into the highest echelons of Japanese politics and industry.

Year after year it has topped Advertising Age's table of the world's biggest advertising agencies. In last year's league table Dentsu – with billings of $9.6bn – was comfortably ahead of its closest competitors, Young & Rubicam of the US and Saatchi & Saatchi of the UK. Its record is all the more remarkable in that, whereas Y&R and Saatchi are international agencies, its interests are concentrated almost solely in one country, Japan.

In the past Dentsu, like other Japanese marketing groups, has adopted a cautious approach to international expansion. It now intends to become more aggressive. The advertising agency that towers over the cultural life of its own country is taking on the world.

Dentsu dominates its domestic market in a way which would be inconceivable in any other country. Japan is the world's second largest advertising market, after the US. Dentsu's turnover of Y1,137bn (£5bn) is twice as high as those of Hakuhodo, its closest competitor, and almost as high as those of all the other top 10 Japanese agencies combined.

Dentsu is also a formidable force in the Japanese media. It accounts for a fifth of all advertising in newspapers, a sixth in magazines and a third of television advertising.

The lightly regulated structure of Japanese broadcasting – where advertising agencies not only buy commercials but also sponsor programmes – means that Dentsu also exerts control over the content of programming. Its greatest strength is in prime-time television, where it is involved with half of all the programming on the five national TV channels.

This means that advertisers have virtually no alternative but to deal with Dentsu if they want to advertise on Japanese television. Given that there is no concept of "client conflict" in Japan – where it is customary for agencies to work for several companies in the same industry – there has been no limit to Dentsu's capacity for growth.

Dentsu is no ordinary advertising agency. Its influence extends beyond the media into the highest echelons of Japanese politics and industry

Over the years Dentsu has used its dominance of the television system not only to stave off domestic competitors, but also to prevent western agencies from penetrating the Japanese market.

Dentsu has also protected its position with an impressive array of *jinmyaku* – or personal connections – in politics and industry. It not only has close contact with the ruling Liberal Democratic Party, but also employs the sons of several senior politicians and industrialists.

Dentsu is also protected by its power over the media. It is actively involved in television through its minority shareholdings in TV channels and production companies. And it can exercise indirect influence because of its clout as the biggest single source of advertising revenue for Japan's newspapers and magazines.

In many western economies legislation exists to prevent advertising agencies from being so closely involved with the media. The only possible parallel with Dentsu is that of Gianni Agnelli's Fiat in Italy, which is not only the largest advertiser but also controls two of the country's most influential newspapers and many magazines.

But in Japan, Dentsu's power is not considered to be at all extraordinary. "Dentsu and the media, we are like brothers," said one of the agency's executives benignly.

The "brotherhood" between Dentsu and the media dates back to the agency's earliest days when Hoshiro Mitsunaga, a former journalist, founded the company by offering articles to Japanese newspapers in return for advertising space which he then sold to clients.

In the 1930s Dentsu was forced by new legislation to choose whether to be involved in advertising or media. It chose advertising. But in the 1950s, when Japanese commercial television was struggling to get off the ground, it stepped in by offering financial and managerial support to the new stations. Today it is doing the same with the new media.

The sheer scale of Dentsu – and its political power – has made it almost invulnerable in Japanese advertising. Its competitors carp that it is losing its creative edge. But there is still no sign of Dentsu losing its dominant position in Japan's extraordinarily buoyant advertising market.

In spite of its success in its own country, Dentsu has been reticent about expanding overseas. Its first foray into another country – when it followed Toyota into the US in the 1950s – was a failure. Chastened by this experience Dentsu has since concentrated on consolidating its position in Japan.

Dentsu already has a string of small overseas agencies and a third of HDM, the international network it runs as a joint venture with Y&R and Eurocom of France. But the appointment of Mr Gohei Kogure, as president four years ago, signalled a change in its international strategy.

The company has decided that it can not depend on start-ups and joint ventures if it is to become a serious player in international advertising. It now believes that the acquisition of an existing network – or networks – is the only solution.

Dentsu could afford to acquire almost any agency it chose. Whether the colossus of Japanese culture will succeed in its bid to become a force in international advertising remains to be seen.

Alice Rawsthorn

Lisa O'Kelly watches the making of a television commercial

A shoot in search of spark

IT IS 10 o'clock on a perfect English autumn morning in the grounds of a fine stately home in Hertfordshire, in southern England.

Dazzling sunshine filters through the red and gold leaves of the chestnut trees. A mist rising from the ornamental lake hangs in the crisp, cold air in front of the summerhouse.

Behind the summerhouse snakes a vivid blue plastic pipeline belching what seems to be some sort of gas. It is dry ice. By the time it rolls down the grassy bank into the lake, the dry ice looks like mist.

Perched on a fallen log Ms Rosie Arnold, art director, *explained apologetically:* "There was plenty of real mist rising naturally off the lake when we arrived at six o'clock this morning. But it has disappeared so we had to create our own."

Ms Arnold is from Bartle Bogle Hegarty, the largest privately-owned advertising agency in the UK. The reason that she is overseeing the creation of fake mist in the grounds of the stately home is that BBH is shooting a new television commercial there for Sony, one of its clients. The commercial is for the TR55 Camcorder, the world's smallest video camera.

Ms Arnold is not short of companions. She has come on location with a Sony executive; a copywriter and two account executives from her agency; a film crew of 40; a team of caterers; two bird handlers; a dog handler; a make-up artist; and three actors. *Two of the actors are* children with a mother and grandmother in tow.

Most of them have been at the stately home since dawn, having put in 14 hours of work on the previous day. They are hoping to wrap everything up by nightfall.

The plot of the commercial is deceptively simple. A couple pushing a pram are strolling with their dog beside a lake. The man is videoing the scene. The woman stops to throw a stick for the dog and suddenly the pram rolls away. They turn in horror as it hits the edge of the lake.

At this point, a large hand enters the scene and takes the camera from the "man" who is, it emerges, a child. So is his "wife". The pram turns out to be a toy with a teddy inside. The large hand belongs to the children's father. All of this is intended to prove how compact and easy to use *the TR55 Camcorder is.*

It all sounds so uncomplicated. But making a nine year-old girl and a 12 year-old boy look like adults and a miniature dog to look like a wolfhound is by no means easy.

"We looked at lots of different ways of doing this but decided not to cheat, because it would have counteracted the surprise," said Mr Chris Hartwill, who is directing the commercial for Ridley Scott Associates.

"So we are using all the legitimate tricks to make them look older: low camera angles; silhouettes and special props. The only sneaky thing we are doing is to run the camera slightly faster than normal, to smooth out the childish way that they move."

Mr Hartwill has spent much of the day before and most of that morning crawling on his belly, calculating the right camera angles to achieve the desired effect. Each shot seems to take hours to complete.

"The production values on a commercial have to be perfect," explained Ms Arnold. "It may be only 30 seconds long but it has to be riveting because it will be shown so many times.

"A detail out of place in a soap opera or a feature film does not matter. But every detail counts in a commercial."

These important details keep the technicians on the shoot very busy. But time tends to drag for the onlookers from the agency and its client. "It is marginally less interesting than watching paint dry," said BBH account director Mr Stephen Gash, stamping his feet and buttoning his baseball jacket against the cold.

"People think of a shoot as a glamorous day out for the client and agency but really I would much rather be back at the office," said Ms Brenda Jones, Sony's advertising manager. "I have a mound of paperwork on my desk. Being here is cold, tedious and tiring."

Nevertheless Ms Jones attends every Sony shoot. "I like to be on the spot in case anything goes wrong or they need technical advice," she said. And, as Mr Gash points out, since she signs the cheque it is only reasonable that Ms Jones should be there.

How much the cheque amounts to on this occasion, nobody is prepared to say. Commercials can and do cost up to £1m. But a conservative *estimate* would put the production budget on this one at around £150,000. It is a standard shoot with no special effects or expensive extras. The most expensive item on the budget was weather insurance at £8,700: apparently an essential, especially when filming in the UK.

Lunch was the high-spot of the day. But the crew was disgruntled as demand for blackberry crumble outstripped supply.

A touch of old-style glamour was supplied by the emergence of Mr Oliver Lewis-Barclay, the agency account manager with a bottle of chilled champagne for Ms Jones.

The rest of the company abstemiously refused a tipple as they braced themselves for an afternoon spent watching the crew take close-up shots of the video camera and trying to keep warm.

But who said advertising was glamorous?

World-wide communications networks are some way off, writes **Raymond Snoddy**

Master plan still at embryonic stage

LAST YEAR Mr Rupert Murdoch, chief executive of News Corporation, asked himself a series of rhetorical questions in public about the future of the media business.

Is a global communications network a reality? "My unequivocal answer is yes," replied Mr Murdoch.

Are there really going to be world-wide media networks? "My answer is yes, both print and electronic," said the man who already owns one of the largest print and electronic media networks in the world.

Is it really going to be possible for an advertiser to achieve, in practice, a single order with the media of his choice across the world?

"Again my answer is yes," said Mr Murdoch who since that prediction was made has launched the four satellite channels of Sky Television and committed himself to keeping the venture going for up to five years if necessary to break into profit.

Mr Murdoch's prediction about placing a single media order world-wide is perhaps still a shade futuristic. The media world is not yet one.

But the News Corporation chief executive whose media interests include everything from Twentieth Century Fox film studios and Fox Television, the embryo fourth network in the US, to five national newspapers in the UK as well as Sky Television, is almost a global personification of the dramatic changes now effecting the structure of the media.

The whole concept of globalisation of the media in general and of advertising markets in particular, combined with the push towards 1992, the year when the European Community aims to create a single European market, has become almost a cliche. As a result there is a danger of under-estimating the dramatic changes now effecting the media in Europe and virtually all of the developed world.

The main structural changes effecting media companies, advertising agencies and advertisers is being driven by a cocktail of causes that include:

■ the technology of satellite and cable which has, at least in theory, removed for ever the limits on the number of television channels available because of the shortage of over-the-air broadcasting capacity. It is far from clear however how long it will be before satellite channels, even those aimed at the European market, such as Super Channel, will be able to earn substantial sums of money from advertising. Both Mr Murdoch and his UK satellite rival British Satellite Broadcasting will be very dependent on film subscription revenues – at least in the early years.

■ a process of deregulation driven by a mixture of technology and ideology of the sort shown by the British Government's commitment to greater choice and competition (without damaging quality). Although deregulation has led to an increase in the number of television channels – new channels are on the way, for instance, in Spain and the UK – the process has, however, been far from total. There have been international moves both at the Council of Europe and at the Europe Commission to set new minimum standards for trans-frontier broadcasting covering everything from the proportion of European content in programme schedules to the frequency and amount of television advertising.

■ the growing strength of multi-national advertisers through a process of mergers and takeovers which has in turn led to a marked increase in internationally co-ordinated media buying particularly across Western Europe.

A wide range of media analysts have documented both the growing power of multi-media corporations such as Bertelsmann of West Germany, Hachette of France and Fininvest of Italy, the corporate vehicle of Mr Silvio Berlusconi, and the growing commercialism of the European media.

Consultants Booz Allen & Hamilton found that in the past 18 months there were mergers and acquisitions totalling £3bn in the European broadcasting industry with the arrival of new players such as Bouygues, Compagnie des Eaux, Fiat and Matra, each attracted by the fact that broadcasting in all its forms is forecast to be a £20bn industry in Europe by 2000.

The fundamental changes in the structure of the media have been matched by changes in the media buying market. According to stockbrokers James Capel there has been a steady growth of media independents and concentration of media buying into a smaller number of hands over the past eight years.

"The indications within the past year, however, are that the trend is beginning to dramatically accelerate with developments in Europe leading the way," James Capel argues in a paper published last month.

To begin with the increase in the market share of media independents was driven locally. But more recently the concentration of media ownership "has led many multi-national clients to look to co-ordinate their media buying and planning on a pan-European and occasionally international basis in order to provide an equally strong representation on the buying side."

However, they will face increasingly complex decisions and the process of liberalisation will not just mean more channels in more homes. In many countries the relationship between advertiser and broadcaster could begin to change with advertisers beginning to exercise a more direct influence over the nature of programming. A greater reliance on sponsored programmes and on barter deals seems likely where such practices are not forbidden by regulation.

Yet the evidence from the US, by far the largest media market, is somewhat contradictory about the impact of change. The growth of multi-channel cable and local independent television stations has most certainly fragmented the US television audience. Since 1970 it has also reduced the audience share of the three main US networks from almost 90 per cent to about 60 per cent and the trend is still downwards.

Over the same period the share of national advertising revenue has fallen but only from 60 per cent to 50 per cent and the actual amount has increased significantly in real terms from $5.1bn in 1980 to $6.5bn last year in constant 1980 prices.

The US experience suggests that however satellite television channels are launched or however sophisticated the centralised media buying operations become advertisers in Europe will, for the foreseeable future, still have to pay dearly to reach mass audiences through existing commercial television stations.

Media moguls: Rupert Murdoch and Silvio Berlusconi

MEDIA BUYING

A market revolution

FOR YEARS media buying has been cast in the unenviable role of one of the least attractive areas of advertising. But in the past year or so it has leapt into the limelight in a wake of international deals and counter-deals.

Media buying is the business of buying space for advertisements on television or in newspapers and magazines. Traditionally it has been conducted by specialist media departments within advertising agencies, or by media independents, which are specialist media companies.

But the concentration of media ownership among a handful of international groups and the growth of multinational advertisers has led to a revolution on the European media buying scene.

Saatchi & Saatchi, the largest UK advertising agency, has centralised its media buying into Zenith, a giant buying group. WCRS, another UK agency, has reduced its involvement with advertising – the traditional base of its business – in favour of taking control of Carat, the French media buying concern.

Other advertising agencies are reappraising their position in media. The challenge is to devise the best structure for coping with the rapidly changing media scene.

The revolution in media buying has taken place against the background of an explosion within the European media industry. The deregulation of national television systems is expanding the advertising opportunities in many countries. Lintas, the international agency, predicts that by 1995, there will be 150 main commercial channels in Europe, compared with 40 today.

The publishing sector is also expanding with the launch of new newspapers and magazines. The progress of new printing technology has enabled the big European publishing houses to expand within their own markets and into other countries.

This growth will boost advertising in each market. But it will also cause fragmentation making it more difficult for advertisers to target particular categories of consumers. This will demand greater skills and resources from agencies in media buying.

These problems will be compounded by the concentration of ownership in the hands of a few, increasingly powerful players. In the 1990s six forces – Mr Axel Springer and Bertelsmann of West Germany, Mr Silvio Berlusconi of Italy, Groupe Hachette of France, together with Mr Robert Maxwell and Mr Rupert Murdoch, both based in the UK – will dominate the European media market.

The rationale behind Zenith and Carat is that, by combining the media buying of several agencies they can cut costs by benefiting from economies of scale in an increasingly capital intensive area. They could also, or so the theory goes, have enough buying clout to counter the growing power of the international media owners.

But this poses a serious threat to the profitability of the media buying operations of other agencies. Zenith and Carat could use their critical mass to undercut their competitors. It is this threat that has prompted the other agencies to review their media buying arrangements.

One option is for agencies to band together in media clubs. Media clubs have already been formed in southern Europe to achieve critical mass against powerful forces like Carat. Clubs have also been established for several years in highly regulated markets, such as Scandinavia and the Netherlands, where agencies have joined forces to reduce overheads. Other agencies are pursuing different options.

The likeliest outcome of all this activity will be the emergence of a handful of top European buying shops, probably including Carat, Interpublic, the Media Partnership and Zenith. The outlook for small local operations is still fairly optimistic. But there is a question mark over the future of the media departments of middle-sized agencies.

Whatever the outcome, the traditional world of media buying will never be the same.

Jo Vale

ZENITH

Clout and the 'critical mass'

THEY ARE known as "those hooligans at Zenith," so it is rather disappointing to walk into Britain's biggest independent media buying business to be greeted by an atmosphere of intense, if slightly frantic concentration, and not a gold medallion in sight.

Zenith is in the vanguard of the revolution which is sweeping through the European media buying scene. It was formed a year ago to centralise the media buying for all the advertising agencies owned by Saatchi & Saatchi in the UK.

The rest of the ad industry likes to think of the Zenith buyers as barrow boys. But Zenith prides itself on hiring graduates. Young men and women tap away at computer keyboards with an appearance of great productivity, make polite requests on the telephone and scribble away at their schedules.

Zenith's directors explain grandly that the media business is becoming too complex for the old school of "barrow boy" buyers. "Now we are looking for people who can grasp the fact that Zenith is trying to change the face of media buying," said Mr Nick Lockett, new business director.

Out on the TV buying floor, a buyer in an open-necked shirt is chewing gum and tapping his calculator. He turns to his neighbour uneasily. "You buying this place, then?" he asked. "Why not buy it with me?" His neighbour shrugs. The phone rings, and the man with the open-necked shirt falls on it, bravado over with for the time being.

Meanwhile, Ms Christine Walker, director of broadcast buying, is exercising what Zenith's detractors like to call its 'clout'. She is firing off a fax to Thames Television complaining about the "bizarre and cluttered" quality of a commercial break featuring two of her clients' commercials broadcast the previous evening.

Zenith's competitors accuse it of using its media buying muscle, its "clout", to its own advantage. At Zenith they do not like the word clout. They favour the term "critical mass".

"We had problems with one newspaper group," said Mr Roy Jeans, the regional press buying manager. "But we have the critical mass. They have seen no business from Zenith this year. It has cost them half of their revenue."

Critical mass reflects the way that Zenith's employees like to see themselves – as doughty fighters against vast media conglomerates and their equally vast clients.

The truth is that media buying is not really all that complicated. Even the television market is little more than a futures market, which would make the average swaps dealer in the City of London gasp at it simplicity. But the Zenith dealers *do* have the trader's patter.

On the national press buying desk, Mr Paul Braithwaite is trying to buy into the Sunday Correspondent for the Halifax Building Society. The space is all taken. Mr Braithwaite suggests *they* could move another advertiser out.

The Correspondent calls back. "Oh great," said Mr Braithwaite. "He has stitched me up in the past. You have done me a bit of a favour there. You are on the way to redeeming yourself. Now could you move the ad forward a bit?"

By the end of the afternoon, the shouting has died down. The television buyers are all busy with their calculators and their pencils, studious graduates again.

But suddenly a rumour breaks out that a national newspaper has decided to run a weekend TV campaign at the last minute. This could mean that all the slots booked by Zenith are at risk.

"What can we do?" said Mr Tim Greatrex, a TV buyer. "If a big advertiser came along to a TV company and said 'we must have this slot', the TV company could put in their commercial and say that the tape machine had broken down and your own ads were lost in transmission."

Geraldine Bedell